

Opportunities, Obstacles, and Implications for Ethical Trade in the South African Wine Industry

by



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Declaration

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

ABSTRACT

This research paper attempts to elucidate the main issues surrounding the integration of ethical trade, meaning the building, monitoring, and communicating of social and/or environmental responsibility, within the South African wine industry. The author first establishes the hypothesis that social and/or environmental responsibility is important to the South African wine industry, as this investment could theoretically provide the industry with a competitive advantage in an increasingly cutthroat international wine market by addressing the industry's most outstanding defects: the lack of quality production, the need for investment in natural resources (labour and the environment), as well as the call for building brand equity and niche marketing strategies. Put differently, this paper suggests that the investment in social and/or environmental responsibility could offer cost-saving benefits to the industry as well as paving a road to international market access. This research first gives a background of ethical trade and determines a picture of the current situation of the South African wine industry, and lastly, given this information, derives the key opportunities, obstacles, and implications of the potential amalgamation of ethical trade in the industry.

OPSOMMING

Die doel van hierdie studie was om die belangrikste probleme rondom die integrering van etiese handel, waarby bedoel word die bou, monitering en kommunisering van sosiale en/of omgewingsverantwoordelike produksie, binne die Suid-Afrikaanse wynbedryf, toe te lig. Eers word die belangrikheid van etiese handel vir die bedryf vasgestel, en word redeneer dat sodanige belegging teoreties aan die bedryf 'n mededingende voordeel in die internasionale mark kan bied deur aandag te gee aan sekerlik die belangrikste tekortkominge in die Suid-Afrikaanse bedryf. Dit sluit in die gebrek aan genoegsame kwaliteit-produksie, die behoefte aan belegging in kritiese hulpbronne, naamlik mense en die omgewing, asook 'n wekroep vir belegging in handelsmerke en niche-strategieë. Anders gestel, word die voorstel gemaak dat sulke beleggings tot voordeel van die bedryf kan wees deur dat dit koste-besparings en verbeterde toegang tot die internasionale mark teweeg kan bring. Daarom word die begrip etiese handel eers toegelig, gevolg deur 'n strategiese ontleding van die Suid-Afrikaanse bedryf. Gegewe hierdie inligting, word die sleutel geleenthede, beperkinge, en implikasies van die aanvaarding van etiese handel dan ontleed.

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CHAPTER I

Introduction

"I tell you that virtue is not given by money, but that from virtue comes money, and every other good of man, public as well as private."

-Socrates

1.1. Foreword

For critics of globalization, business' exploitation of labour and the environment is of foremost importance in reassessing the global rules of trade. The perceived failure of the World Trade Organisation (WTO) to shield all countries, especially developing ones, from social and environmental degradation resulted in a public eruption in late November 1999, in the unprecedented and violent Millenium Round riots in Seattle, Washington. The riots synthesised the political and social concerns of a growing consumer-driven movement that insists the traditional trading order is flawed in fundamental ways, partly by allowing business to exploit and neglect the protection of people and the environment. Although the Seattle riots stunned the world by their intensity, this reactionary debate over world trade with regard to environmental and social issues is not new. Indeed, the call for 'fair trade,' or the harmonisation of labour and environmental standards across the globe, is an established area of economic debate. The lack of such internationally comparable standards, argue fair-trade advocates, will encourage a 'race to the bottom,' "a vicious cycle of social retrogression in all trading nations" (Sengenberger 1994:7), whereby business will adopt less and less strict standards to maintain competitiveness. The harmonisation of labour and environmental standards by an international organisation like the WTO, predict proponents of fair trade, will result in an avoidance of social and environmental destruction.

Notably, "many trade scholars- both lawyers and economists- view the increasing preoccupation with 'fair trade' as the most fundamental challenge or threat to the liberal trading order that has arisen in recent decades" (Howse and Trebilcock 1996:61). While fair-trade supporters call for the institutionalisation and international regulation of labour

and environmental standards as a means to encourage 'constructive competition' (Sengenberger 1994:5), "most free traders see [these demands] as motivated by the desire to protect jobs at home against increased competition from the Third World and view many fair traders as charlatans; [however,] where the demands of fair traders cannot so easily be reduced to protectionist pretexts, free traders are inclined to portray the advocates of [harmonisation] as irrational moral fanatics, prepared to sacrifice global economic welfare and the pressing needs of developing countries for trivial, elusive, or purely sentimental goals" (Howse and Trebilcock 1996:61). The classical view of free trade vs. fair trade is best summarised as follows (The Economist 1/8/94:26):

"There is a...fundamental objection to attempts to link trade privileges to labour and environmental standards ...The playing field of international trade will never be level; nor should it be...Competition between firms in different countries can never be 'fair' in the same way as competition between firms in the same country...The benefits of international trade come from allowing countries to exploit their comparative advantage, not from requiring them to be identical...And [many countries'] comparative advantage lies, one way or another, in the fact of [their] poverty: in particular, cheap labour and a greater tolerance of pollution."

Indeed, as a forthcoming development within the WTO, the international harmonisation of labour and environmental standards is highly unlikely. The WTO, as well as the International Monetary Fund (IMF), the World Bank, the United Nations Development Programme, and especially developing country leaders, remain against harmonisation, as such regulations countervail efforts to encourage globalization and free trade.

1.2. Ethical Trade

However, where the WTO has remained passive, an enormous effort to institutionalise social and environmental standards within the global economy has risen as a *consumer-driven movement*, which seeks to regulate business activity through voluntary private regulation. A growing number of the world's citizens, especially those in Europe and the United States, are increasingly concerned with international environmental and social

issues, principally with regards to business behavior.¹ Such an awareness has translated into a demand for environmentally and socially ‘responsible’ products and/or services; accordingly, hoping to capitalise on this demand, many businesses have begun to voluntarily adopt self-regulatory initiatives, which build and monitor socially and/or environmentally responsible business practices, thus providing social and/or environmental *accountability* to consumers. This incorporation of social and environmental responsibility into the value chain has been called *ethical trade*. Specifically, ethical trade can be defined as “*the adoption of socially and/or environmentally responsible practices within the value chain [of a business], the monitoring and verification of these strategies as well as the communication of these strategies to key stakeholders*” (Blowfield ‘An End or a Means?’ 1999:1). Ethical trade initiatives frequently take the form of incorporating *codes of conduct* into a business’ operations, and have drawn a wide range of support from government, worker’s advocacy groups, nongovernmental organisations (NGOs), and business itself.

Ethical trade has developed into a worldwide trend as many businesses seek to provide social and/or environmental accountability to stakeholders. Moreover, many markets are demanding certain ethical criteria from suppliers, whether related to environmental and/or social issues. Thus, it can be said that, in many wealthy nations, there is not only a market niche for socially and/or environmentally responsible products, but a rising *ethical floor* that determines mainstream market access. Nowhere is this trend more evident than in the agro-food sector. Indeed, as environmental concerns revolving around food-safety have grown tremendously in the past decade, more and more food retailers are requiring their suppliers to prove certification of environmental quality control. Although social responsibility does not play as large a role in determining market access, it can provide businesses with many added benefits, by deterring potentially negative publicity and consumer boycotts.² Thus, social responsibility, especially for highly visible brand name products, can ensure survival in a more highly scrutinised market.

¹ Various sociological/economic factors contribute to an increasing concern for environmental and social issues, such as elevated wealth and prosperity, rising media access, higher levels of education, etc.

² The term ‘social responsibility’ is often used in this report as juxtaposed to ‘environmental responsibility.’ This is demarcation is important, as ‘social responsibility’ is used to refer to workplace and community

For instance, British supermarkets are setting an unprecedented standard for the sourcing of socially responsible products as a means to obtain a competitive advantage in the increasingly cutthroat supermarket industry. In the near future, it is expected that meeting standards of social responsibility relating to workplace conditions will become a requirement for agro-food supplier companies to gain access to these supermarkets. Therefore, factors of production relating to social responsibility may well begin to occupy the same importance in determining market access as environmental quality standards in the agro-food chain.

Fundamentally, the importance of private regulatory initiatives seeking to set standards for environmental and/or social responsibility lies in the fact that these initiatives have become industry-wide phenomena, oftentimes setting a precedent, or ethical floor, for an entire market as opposed to government legislation; a fact which illustrates the potential scope of ethical trade. In this paper, it will be therefore illustrated that ethical trade, or the incorporation and monitoring of social and/or environmental responsibility within a business, is both a substantial and growing trend, and oftentimes necessary for maintaining international market share.

1.3. The South African Wine Industry

The South African wine industry is currently experiencing difficulty adjusting to its new economic environment. Following the collapse of trade barriers erected against South Africa during apartheid, the wine industry has witnessed a dramatic rise in exports along with major structural changes, yet still lags in meeting market demand. The global market for wine is becoming increasingly competitive, as more producers enter an oversupplied market, especially from 'New World' wine producing countries (e.g., Australia, New Zealand, Argentina, California, Chile). In addition, the overall demand for wine has decreased substantially, while the demand for high quality, especially red,

issues (e.g., the treatment of labour); while environmental responsibility refers to environmental conservation (e.g., not harming the environment) as well as environmental quality control (e.g., food safety).

wine has increased considerably, reflecting an augmenting value of sales. Along with high quality production, the value of marketing and 'brand-building' is becoming of utmost importance in determining success on a global stage for a wine producer in this era of heightened competition. Furthermore, as with any agro-food industry, wine producers are increasingly under pressure to provide certification of environmental quality control, as environmental factors of production have come under intense scrutiny. Although several South African wine producers have secured a place in this extremely competitive international market, on the whole, the wine industry has yet to tap into its international potential.

This lag is the result of a vineyard area prominently cultivated in low-quality, white grape varieties, anachronistic and inefficient labour practices, as well as the lack of strong and distinctive marketing strategies. Indeed, the majority of wine produced in South Africa is low-quality white wine, which can be traced to the operation of a large cooperative, the *Kooperatieve Wynboers Vergining* (KWV) which controlled the wine industry for 80 years by means of statutory powers, and used cheap, white grapes to fuel its brandy and distilling business. Although the KWV has been deregulated, many South African producers carry on this legacy of low quality production. Furthermore, labour organisation on South African wine farms is predominantly inefficient and anachronistic, which has resulted in both low human capital productivity as well as vast social problems for farm labour. Skilled employees and high labour productivity are of key importance in building a competitive wine industry. Finally, the lack of strong marketing strategies is detrimental to the industry in the international market as retail becomes increasingly consolidated, thus pitting many wines in competition against one another. Building recognisable and familiar brands associated with good quality is therefore of great consequence in maintaining and expanding market share.

Therefore, the South African wine industry must create reforms and improvements in the industry that will build its international competitiveness. It can be said that the major agenda for the South African wine industry is the production of high quality wine in tune with consumer demand, the increased investment in natural resources (e.g., labour and

the environment), as well as the development of brand equity and distinctive marketing strategies.

1.4. Opportunities, Obstacles, and Implications for Ethical Trade in the South African Wine Industry

The central assumption of this research is that the South African wine industry has deficits which ethical trade can fill. Consequently, the aim of this research is to examine the opportunities, obstacles, and implications for ethical trade in the South African wine industry by answering the following questions: can ethical trade present the South African wine industry with a means to build a competitive advantage in an increasingly scrutinised and quality-focussed global marketplace? What is the likelihood that the wine industry will adopt principles of ethical trade?

Although not a panacea to the problems of the wine industry, ethical trade, by encouraging investment in social and/or environmental responsibility, could aid in addressing the industry's major deficiencies. For instance, the South African wine industry must be able to prove environmental safety standards to buyers, retailers, and consumers, as many major markets in Europe and America set a higher environmental standard for agro-food products. Ethical trade will ensure that these requirements are being met. One positive development in this area has been the wine industry's adoption of the Integrated Production of Wine (IPW) scheme, which monitors and regulates environmental quality control; indeed, the origin of this voluntary initiative can be traced to concerns over maintaining overseas market access. Although proving social responsibility is not currently a 'threshold' to market access for the wine industry like the IPW, it is clear that, with the advent of British supermarkets requiring core labour criteria from their suppliers, social responsibility could very well become necessary in gaining market access to these retailers in the future. Importantly, British supermarkets are the largest importers of South African wine. In addition, the investment in social responsibility could provide the industry with a kind of 'integrity capital,' which could prevent negative exposure of labour practices and perhaps consumer boycotting of South

African wine. More fundamentally, social responsibility, or the investment in labour strategies, could improve the productivity of labour and result in a more efficient, and more quality-focussed wine industry. Furthermore, the marketing of wine as socially and/or environmentally responsible could provide the wine industry with a valuable 'niche' market, thus aiding in the establishment of brand building.

Because these assumptions are highly theoretical, it is necessary to further delineate the potential for integrating ethical trade into the South African wine industry. This research thus aims to elucidate the major issues surrounding such a marriage. Therefore, in Chapter II, a background of and motivation for business social responsibility will be given, followed by a description of ethical trade initiatives in Chapter III. The goal of these two chapters is to illustrate the growing consumer preoccupation with social and/or environmental business responsibility, as well as to describe the steps that businesses are carrying out in order to provide stakeholders with social and/or environmental accountability. In Chapter IV, an overview of the world wine industry, focussing on production, consumption, marketing and regulatory trends will be outlined, as a means to introduce Chapter V, which contains a description of the current situation of the South African wine industry. The purpose of these chapters is to situate the South African wine industry within the broader context of the world market for wine, as well as to highlight the key problems and defects within the industry. Most importantly, these chapters aim to represent the growing importance of social and environmental responsibility within the wine industry: although social and environmental issues do not cover the entire scope of the industry's problems, these two aspects play a large role potentially strengthening its current situation. Chapter VI will thus attempt to illuminate perspectives on ethical trade from key players in the wine industry, through eleven case-study interviews with wine producers, as a method of garnering information on the problems and potential in incorporating social and/or environmental responsibility within the industry. This chapter does not aim to be representative of the entire wine industry, but rather aims to target several people in power to obtain personal insight and opinions on ethical trade. Finally, Chapter VII will analyse the integration of ethical trade in the

South African wine industry, by presenting the opportunities, obstacles, and implications thereof.

CHAPTER II

Business Social Responsibility and Rising Expectations

2.1. Introduction

This chapter will depict the field of business social responsibility, which has evolved dramatically over the years, to encompass an increasing array of consumer expectations involving social and environmental issues. Paradoxically, in the modern era of free trade and globalization, of decentralization and deregulation, it will be shown how business is finding itself subject to highly specific consumer demands, which in turn have fuelled the rise of a new, more explicit field of business social responsibility. In other words, the following section represents how the financial ‘bottom line’ now inexorably reflects society’s concern for social and environmental issues.

2.2. Business and Social Responsibility

2.2.1. Early Period: 1700s-early 1900s

The obligation felt by business to society, or society’s view of the obligations of businesses to it, is a philosophical debate that has existed for centuries. Because “the role of business in [society] has long been the subject of much debate, analysis, and emotion” (Sturdivant 1981:3), the shaping of modern society’s notion of what responsibility a business holds towards stakeholders has undergone a continual process of evolution. The controversy over the interaction between society, government, and business plays an active role in American history, for instance: “A careful reading of the accounts treating the writing of the Constitution, as well as the debates of men such as Thomas Jefferson and Alexander Hamilton, clearly reveals that this issue was present at the formation of the republic” (Sturdivant 1981:3). Said Thomas Jefferson: “I hope we shall crush in its birth the aristocracy of our moneyed corporations, which dare already to challenge our government to a trial of strength and bid defiance to the laws of our country” [Henderson 2000:9 (People’s Bicentennial Commission 1975:147)]. While Adam Smith stated that

the ‘invisible hand’ would work towards the good of both individuals and society alike – put simply, that businesses would, by following profit, ‘automatically’ do what is best for society - he noted that business should not be free of any regulation. The first legislation that targeted the spillover effects of business to society came not long after Smith: in 19th century Britain, as migrant workers poured into industrial urban areas, the harsh and sordid conditions for workers generated an increasing concern over the responsibility of business to society, “as the impact of industrialization on the natural and built environment...became a new source of concern and comment,... [arousing] the anger of some and the deep concern of others” (Cannon 1994:8). This “[legislation] grew directly from the concerns of those observers who sought to require or persuade the new entrepreneurs and their firms to adapt a more responsible attitude to the needs of their workers and the communities in which they operated” (Cannon 1994:8).

Throughout the 19th and early 20th century, business social responsibility evolved with the development of philanthropy, community obligation, and paternalism (Carroll 1990:28). Philanthropy, as initiated by Victorian businesses such as Unilever and Cadbury’s, as well as the Rockefellers and Mellon families, became a firmly rooted tradition in the history of business. The Rockefellers, for instance, amongst other American philanthropists, believed that “education lay at the [centre] of...individual, entrepreneurial, and corporate responsibility” (Cannon 1994:20). While the Rockefellers invested in scientific philanthropy, “designed to identify and tackle social ills,” the Mellon family focused on the improvement of “housing and social conditions” in America (Cannon 1994:20). These endeavors to uplift communities indeed became evident: “one example of this was the cooperation between the American railroads and the YMCA immediately after the Civil War to provide community services in areas served by railroads” (Carroll 1990:28). In addition, paternalism evolved out of the establishment of ‘company towns’ in America where large factories were built; it was believed that the owners and managers of the factories held a ‘social responsibility’ to their workers by establishing social infrastructure in the newly formed towns.

However, on the whole, business social responsibility during the 19th and early 20th century was the exception rather than the rule and weakly enforced by legislation. Although England's industrialisation had created the first legislation to encourage business social responsibility, state intervention in business activity had little thrust. Furthermore, many company shareholders were subject to fraud and other forms of financial manipulation. However, American legislation, for instance, began to "[circumscribe]...early [corporate] charters with regulations [to target]...the worst abuses, which included greater disclosure and primitive accounting methods" (Henderson 2000:3). Nonetheless (Henderson 2000:3):

"...Stockholders were still cheated by watering down their equity, the growth of holding companies, and pyramiding of corporate assets in so-called trusts. In addition, stock prices were manipulated on unregulated stock exchanges by tricks such as short-selling, bear raiding, cornering the market, and other shenanigans, which precipitated more than 100 years of booms, busts, and bubbles, eventually culminating in the Wall Street Crash of 1929."

In America, by 1910, the first attempt to curb this deceit resulted in the institutionalisation of the 'Blue Sky Law,' which sought to officially halt the selling of false stocks (Henderson 2000:4). However:

"Whereas [now] stockholders at least had some rights on paper, corporate charters said little or nothing about the rights of employees, consumers, or citizens at large, other than their occasional vague assertions of the public benefits that would accrue. Environmental protection did not occur to these early venturers, who believed that exploiting natural resources was a virtue" (Henderson 2000:3).

2.2.2. The Ascendancy and Decline of State Regulation: mid 1900s to present

2.2.2.1. *The Ascendancy of State Regulation*

During the mid 20th century, the Great Depression and the ensuing social crisis created a greater role for the state in regulating business. However, before these developments, the

period following World War I and the Bolshevik revolution saw the rise in the first international attempt to improve labour standards across the globe, by the formation of the International Labour Organisation (ILO) in 1919. The founding goals of the ILO were to create “social justice and humanitarian concern over the existence of conditions of labour that [caused] hardship and privation to large numbers of people...to stave off unrest that would imperil the peace and harmony of the world...and to eliminate the negative cross-border externalities generated by countries which failed to observe humane conditions of labour” (Lee 1997:174). Furthermore, the ILO “widened the scope of concern [over labour conditions] to include employees and consumers through a unique international partnership of public, private, and civil society organisations” (Henderson 2000:8). Although ILO regulations and charters remained voluntary and enforceable only by the nation that chose to adopt them, the ILO succeeded in setting the world’s first precedent for labour standards in the workplace. Following the Great Depression, as the classical economic model began to show severe flaws, a new wave of the awareness of social repercussions of business onto society began to take root in many industrialized nations; in effect, business began to be subject to increasing rules and regulations that governed its societal impact. Indeed, “the challenge was...severe because the actions of business and businessmen were seen as largely responsible for the problems facing the industrial nations” (Cannon 1996:25).

As the role of the state grew larger in dictating regulations to business, government and business became more deeply integrated. Indeed, “government intervention to tackle the social and economic problems which the market and the corporation [could not] resolve marked a major change in US thinking....This did not mean however, that entrepreneurs and companies withdrew; [instead,] the forms and balance of corporate action to satisfy their responsibilities changed” (Cannon 1996:25). In the period following World War II, government and industry began to collaborate on regulatory standards that would curb business’ social and environmental impact. Many businesses saw the opportunity to collude with government on national standard-setting as profitable: by setting environmental and/or social standards for an industry, businesses were able to ‘capture’ a market, by edging out businesses with lower standards (Henderson 2000:6). Put

differently, a business with the highest standards would ‘win’ control of a market. In addition, by adhering to high social and/or environmental standards, companies could avoid costly government regulation. For instance, the company 3M (formerly Minnesota Mining and Manufacturing Company) was heavily regulated by the US government in the 1960s for its use of toxic solvents and chemicals (Batie 1997:246). In order to escape heavy regulation, and “to reduce compliance costs and enhance the company’s image,” 3M decided to invest in a “Pollution Prevention Pays” programme (Batie 1997:246). Such a strategy enabled 3M to avoid regulation, and “avoiding regulation was seen to be beneficial by giving 3M a competitive edge over their more regulated competitors, having less concern with variation in environmental rules abroad, and minimizing public relations costs” (Batie 1997:246). For instance, “by 1969, for example, many large corporations, such as the big three automakers in the United States, were writing the national clean air standards...they preferred one stricter standard to the different sets of regulations that citizens in California and New York had lobbied into law by 1968. Thus, corporations [tended] to fight social movements until they [were] powerful enough to enact higher local standards in one or two key jurisdictions...to rationalize their own production” (Henderson 2000:6).

2.2.2.2. *The Birth of the Consumer Movement in the US*

In addition to government pressure on business to be held accountable to society, consumer movements that targeted business and lobbied government had begun to form. In 1962, Rachel Carson’s book *Silent Spring*, which documented the effects of pesticides on wildlife, caused a public outcry. The book “was released to a public already sensitized to the unintended consequences of the chemical age by the thalidomide [pharmaceutical] tragedy in Europe” that had “resulted in the birth of hundreds of babies being born without arms or legs” (Batie 1997: 239). Furthermore, American values towards natural resources had changed, for instance (Batie 1997:239):

“Values of resource conservation began to be replaced by values of environmentalism. These new values called for the protection and preservation of natural resources for their own sake, not

for their value in production. For example, wetlands were not to be drained and converted to agricultural production, but instead, were to be protected as habitat for wildlife and an integral part of natural ecosystems. The majority of Americans became committed to achieving both economic growth and environmental quality.”

By the end of the 1960s in the United States, activist consumer groups were accusing business as a perpetuating agent of social and environmental manipulation and degradation. For example, Ralph Nader’s ‘Campaign to Make General Motors Responsible’ in 1968, the inception of the Council on Economic Priorities to research the impact of business on society in 1969, and the foundation of ethical-investment funds in the 1970s all marked an increasing consumer preoccupation with the impact of business on society and the environment (Henderson 2000:4).

2.2.2.3. Declining Role of the State

However, by the 1980s, the state began to downplay its role in regulating business. While the consumer movement targeting business grew, the role of the state in regulating business was gradually lessened in American policy making, with the rebirth of classical economic theory, through ‘supply-side’ and ‘trickle-down’ economics. The relaxation or phasing-out of government standards to ensure labour or environmental standards can be traced to the *laissez-faire* notion of markets, where government regulation of standards “are viewed as an interference in the (natural) market process, leading to distortions in the price-setting and market clearing mechanisms, impeding efficiency, creating suboptimal allocation of labour and other production factors, the waste of resources through rent-seeking, the stifling of competition, the deterrence of investment and constraints to economic growth and the expansion of employment” (Sengenberger 1994:10-11). Furthermore, such regulations, especially concerning labour, were interpreted as “key causes of the rise and persistence of unemployment...they [were] seen as reducing the incentives for workers to seek work and for employers to create jobs...[and] as responsible for impeding structural change in the economy by providing excessive employment security” (Lee 1997:174). In addition, the rise and consolidation

of international treaties and trade blocs contributed to the decreasing role of the state. Talks between nations in the context of the General Agreement on Trade and Tariffs (GATT), which was institutionalised into the World Trade Organisation (WTO) in 1995, along with the rise in trading blocs such as the North American Free Trade Agreement (NAFTA), ASEAN, MERCOSUR, and the increased economic consolidation of the European Union (EU), further contributed to the deregulation and privatisation of national economies, representing a dramatic push towards liberalisation and globalization.³ This trend towards decentralisation, critics say, along with the rising prominence of transnational and multinational corporations, placed the state in a 'puppet' role to the broader financial interests of big business (Henderson 2000:6). Indeed (Henderson 2000:2):

"Today, the state is everywhere in retreat and... fears are...focussed on the ascendance of markets and private corporate power in our [globalized] economy."

2.3. Modern Challenges to Business: The Consumer Landscape

2.3.1. Modern Consumer Concerns in the Global Marketplace

In this section it is necessary to explore how expanding consumer concern has shaped, or is shaping, modern business social responsibility. The aforementioned declining power of the state to regulate social repercussions of business activity has resulted in a greater consumer fear of globalized, unregulated business activity, especially in its effect on both society and the environment. There are several specific, interrelated, and overlapping socio-economic factors that serve to illuminate the modern consumer landscape, and fuel the call for increased business social responsibility in this era of liberalised trade and decentralization.

³ ASEAN is the acronym for the 'Association of Southeast Asian Nations;' MERCOSUR is the acronym

(a) *The Rise of Multinational Enterprises (MNEs):*

Multinational enterprises (MNEs), or corporations with affiliates in many different countries, are often accused of enabling international social and environmental decay. Several MNEs have revenues larger than many countries' gross national product (GNP), and oftentimes exert more power than nation states, as the rise in MNEs has been offset by the decline in the role of the state. As trade patterns have changed over the years, "as a result of international sourcing and subcontracting, and the relocation of stages of production in line with local cost level," as well as the development of "intra-firm trade [which] consists of the cross border shipping of intermediary rather than finished goods," MNEs have "shift[ed] production and employment to wherever the production context (taxes, wages, laws and procedures, industrial relations, etc.) is most suitable and the markets provide the greatest opportunities" (Sengenberger 1994:5). Several international legislative bodies, such as the UN and the ILO, have attempted to regulate the increasingly omnipotent position of MNEs but all efforts have, for the most parts, not been enforced or put into action. In 1977, the ILO drafted the 'Tripartite [workers, governments, and corporations] Declaration of Principles Concerning Multinational Enterprises and Social Policy,' which aimed to "address the specific issues raised by international business and the power they hold in the global economy, and to 'encourage the positive contribution which multinational enterprises can make to economic and social progress and to minimise and resolve the difficulties to which their various operations may give rise'" [Seyfang 2000:6 (ILO 1978: clause 2)]. In addition, the United Nations (UN) formed the Centre for Transnational Corporations in 1974 "as a response to the growing concern among governments, workers organisations, and civil society groups, that the potential risks arising from the untrammelled power of MNEs was too great to be left to the market;" in effect, a code of conduct was promulgated which addressed many issues such as "bribery, disclosure of environmental and other occupational hazards of production, transparency of the organisation, etc..." (Seyfang 2000:6). However, this code was never ratified, owing to dissension amongst members of the UN. Other

attempts, namely by the Organisation for Economic Cooperation and Development (OECD), set out to monitor MNEs: for instance, the ‘Guidelines for Multinational Enterprises,’ drafted by the OECD in 1976, and signed by 29 member countries, attempted to incorporate ethical behavior into the operation of MNEs.

Yet despite the ratification of international agreements designed to regulate the impact of MNEs on the environment and society, many of these agreements are voluntary and not enforceable; indeed, “many are not put into practice” (Seyfang 2000:9). Fundamentally, such rapid globalization has resulted in a criticism of MNEs and the fear that, along with the deregulation of the state, as well as the rise of ‘fortress-like’ trading blocs (e.g.; NAFTA, EU, MERCOSUR, ASEAN), these large corporations will perpetuate and encourage social and environmental destruction by encouraging a ‘race to the bottom,’ as well as exclude developing nations from the benefits of trade (Sengenberger 1994:5).

(b) *Corporate Scandals, Environmental Damage, and MNEs*

The role of MNEs in developing countries, where cheap labour and environmental abuse are unfettered by law, has been hotly debated, as ‘sweatshop scandals’ have been brought to consumer attention. Such ‘sweatshop scandals’ typically expose child labour, sordid working conditions, poor pay and work hours; examples of which include the Nike debacle of 2000, amongst other prominent clothing and apparel manufacturing scandals. This type of exploitation typically takes place in countries where pollution regulations are nonexistent or weakly enforced, and where labour is cheap and unprotected by legislation. For instance, an estimated 250 million children between 4 and 14 years old are employed as workers in developing countries [Folkes and Kamins 1999:250 (Unicef 1997)]. In effect, “major consumer campaigns are gaining ground across Western Europe and North America by joining forces with non-governmental organisations (NGOs) and trade unions...to demand respect for worker’s basic rights” (Mayne 1999:1).

Other large corporate scandals have been unveiled which portray the general negligence and irresponsibility of business. Indeed, the failures and corruption of many types and sizes of businesses have come into the public spotlight, through increased media attention. Disasters like the Exxon Valdez oil spill, the false 'dolphin-safe' tuna marketing of the 1980s, the Firestone tire disaster, amongst countless other incidents where business has been targeted as socially and environmentally irresponsible, have provided fodder to the fire of the consumer movement which challenges business.

(c) *Trading Relationships and the Exploitation of the Developing World*

There is a growing consumer perception that the WTO, and other international trade organisations, are a perpetuating agent in the poverty of the Third World, by excluding developing countries from participation in the global economy, and by constructing the framework that *allows* MNEs, for instance, to relocate to international destinations, unaffected by enforceable legal requirements which protect the exploitation of labour and of the environment. In recent years, it has been difficult to ignore the fact that, while global trade has grown tremendously, and many nations have indeed profited, the poorest countries the world, those of Sub-Saharan Africa, for example, have indeed become poorer. Many critics of globalization cite that: "over the past two decades, the interrelated processes of globalisation, industrialisation, and market liberalisation have dramatically increased social inequality and environmental destruction around the world" (Murray and Raynolds 2000:66). Such facts lead to questions about the effects of an increasingly liberalised world trading order on the Third World.

In effect, there is a growing public sentiment that trade barriers continue to harm the Third World, where "according to the UN, developing countries lose about US\$700 billion a year as a direct result of protectionist measures which penalise Third World exporters, [a figure which is] 14 times higher than the total aid flow to developing countries each year;" in addition, "rich nations have set tariffs on

imports from developing countries at 30 percent higher than the global average...these discriminatory practices are especially common in the agricultural and textile sectors, which are the sources of income for many of the poorest people on earth” (The Economist 22/1/00:6). Mounting public pressure against multinational companies and governments that exploit labour and the environment, under the auspices of globalization, and which marginalise and dominate poorer, developing countries in the Third World, has resulted in the rise of an anti-trade public sentiment.

Notably, one spin-off of this anti-trade sentiment has been the strengthening of the “alternative trade” movement, a movement that was first initiated by religious groups (e.g., Oxfam) in the 1950s. Alternative trade seeks to build voluntary “fair trade” partnerships between poor producers and European and/or American consumers. Today, this movement seeks to bring about sustainable development within the developing world by providing disadvantaged producers with access to markets in the Northern hemisphere. Such initiatives begin with an alternative trade organisation (ATO), which negotiates directly with the producer, in hopes of building a long-term trade relationship to encourage sustainable development. Fair trade organisations either engage directly in the sourcing of a product or provide a fair-trade label to businesses wishing to source fair-trade goods. Fair-trade goods have gained a foothold in the agro-food market, especially: it is commonplace to find fair-trade coffee and bananas in major food retail outlets in Europe, for example. The market for these goods is worth approximately US\$400 million, a relatively small market share, but reportedly growing (Blowfield ‘Ethical Trade’ 1999:1). This grassroots movement towards an ‘alternative’ system of trade which develops social and environmental goals into the world economy is testament to a growing consumer base, concerned with social and environmental factors of production, especially as they relate to the developing world.

(d) *Food Safety*

Perhaps more pervasive than any of the aforementioned consumer concerns over business' societal impact, is the enormous consumer preoccupation with food safety standards. Indeed, food safety is at the forefront of demands on business involved in the agro-food chain, and emphasises the growing importance of environmentally responsible production methods, especially with regards to fresh food product trade (Unnevr 2000:232).

“Traditional trade protection has been reduced by the 1994 GATT agreement, which means that sanitary and phytosanitary (SPS) measures assume greater importance in determining market access. Consumers in high income countries have become more aware of food safety risks and demand greater guarantees regarding product handling. At the same time, many developed countries (DCs) are modifying their safety regulations to emphasise process control and prevention of risks throughout the production process” (Unnevr 2000:231).

Attempts to regulate the quality of food can be found in initiatives like Hazard Analysis and Critical Control Points (HACCP), which has been applied by the Food and Drug Administration (FDA) and the Department of Agriculture (USDA) in the United States, as well as in the EU, Australia, New Zealand, and Canada, to cover part, if not all, aspects of agricultural production (Unnevr 2000:235), following “periodic discoveries of fresh or frozen fish, meat, and poultry contaminated with pathogens such as E Coli... and Salmonella,” which have resulted in severe food poisoning and even death for many people (Antle 2000:310). Indeed, an estimated 6.5 to 12.5 million cases of food-borne disease occur every year, including between 500 to 9,000 deaths (Antle 2000:311). HACCP centers on “identifying hazards (e.g., where pathogens can be introduced into the production process) and establishing methods to control those hazards” (Antle 2000: 310).

Food safety has become an increasingly important political and social issue in the United States and Europe alike. As the USDA currently prepares to release its first 'organic' standards/accreditation program (Canadian Press 7/12/00:1), the European Union fights a consumer backlash against beef production and genetically modified organisms, as well as a recent disastrous foot-and-mouth disease outbreak in Britain (GMOs). With the advent of mad cow disease, European confidence in buying beef has fallen dramatically, and the consumer has called upon business and government alike to establish and verify safe food manufacturing practices. In addition, the perceived threat of GMOs to consumers is a major issue amongst European consumers (more so than their American counterparts): for instance, "surveys show that 77% of the British public oppose genetically engineered foods in England," while most Americans are not aware that 60% of food sold in the United States has been genetically engineered (Ryan Nov/Dec 1999:19). Thus, the rise in animal disease, food-spread illnesses, and fear over GMOs, has resulted in a consumer demand for more 'green' products. It is therefore evident that 'farm to table' quality control is "increasingly in demand in [all] high income markets" (Unnevehr 2000:235).

2.3.1.2. Other Consumer Concerns

In addition to these major socio-economic trends which illustrate the effects of globalization and consumer's ensuing environmental and social concerns over business operation, other major issues in the global marketplace which place increasing consumer pressure on business to act responsibly are the following [based on information from Business for Social Responsibility (www.bsr.org)]:

- *Product Manufacturing and Integrity:* Consumers "have expressed increasing interest in issues relating to the nature of the products they buy: how and where they are made; their durability and technological obsolescence; their safety and suitability for certain audiences....Another factor is the larger issue of a product's purpose and intention[;] that is, whether it has a useful function in society and whether its

manufacturer is responsible for any problems it may cause, even if used properly” (‘Marketplace’ n.d.:para. 12.). Examples of socially “irresponsible” products that have come under fire are alcohol, firearms, and tobacco. Indeed, “consumers and government agencies in several countries have strengthened regulations on many of these issues, leading companies to redesign products, ensure that ingredients come from sustainable sources, provide additional disclosure, or change the way that products are manufactured” (‘Marketplace’ n.d.: para. 12).

- *Disclosure, Labeling and Packaging:* The importance of revealing a product’s attributes through labeling has become a major issue in advertising, as “customers, regulators, community groups, environmental activists and global trading partners are among those seeking details about manufacturing processes, product content and the source of raw materials;” furthermore, labels help such interested parties ascertain whether products were made “in an environmentally friendly way, grown without use of synthetic pesticides, manufactured domestically, made by workers in decent working conditions and for adequate pay, or contain ingredients not tested on animals...” (‘Marketplace’ n.d.:para 13). In addition, there has been a rise in the call for minimalist or recyclable packaging (‘Marketplace’ n.d.:para. 13).
- *Marketing and Advertising:* Implications of misleading advertising have aroused consumer concern, and businesses are under increasing pressure to project realistic and honest advertising. The “so-called sin products- such as alcohol, tobacco, and firearms- have come under especially tough scrutiny. These products’ manufacturers have been criticized by some for allegedly targeting ethnic minorities, women and other market niches” (‘Marketplace’ n.d.:para. 14).

2.3.2. Ethical Consumerism

The concomitant effect of the increased consumer concern over social and environmental issues in the global marketplace has been the development of *ethical consumerism*: whereby consumers translate their social and environmental preferences into purchasing decisions. A 1999 survey of consumers in 23 countries by Environics International, the Prince of Wales Business leaders forum, and The Conference Board, found that more

than one-third of consumers in 15 of the countries surveyed believed that an important role of larger companies in society is to “set ethical standards and help build a better society” (‘Business Ethics’ n.d.:para. 5). The same survey “found that 40% of consumers had considered punishing a company based on its social actions, and nearly 20% had actually avoided a company’s products because of its such actions” (‘Business Ethics’ n.d.:para. 5). Furthermore, a 1998 study sponsored by the U.K.-based Cooperative Wholesale Services found that 60% of retail food customers, even in the absence of an organised boycott, have avoided a shop or product they associated with unethical behavior” (‘Marketplace’ n.d.:para. 6).

The number of ‘ethical’ consumers in the UK is estimated to be 1.7 million (Burns 1999:12). A recent survey by the Cooperative Bank in the UK demonstrated that 45% of the public said that the treatment of employees is very important in their purchasing, and 34% say that environmental impact is also important (Hines, C. and Ames, A. 2000:8). Furthermore, 51% of consumers agree that they can “make a difference to how responsibly a company behaves” (Hines, C. and Ames, A. 2000:13). While customer service proved to be the deciding factor between the purchase of two equally comparable products, the treatment of employees (15%) and impact on the environment (14%) were clearly proven to be major factors (Hines, C. and Ames, A. 2000:10-11). Although “stopping to consider the ethical nature of a product is probably effortful and not necessarily pleasurable,” a growing percent of the population is willing to act on its ethical beliefs (Irwin 1999:212). Notably, European consumers are more concerned with *both* environmental and social factors of production, while their American counterparts are more focussed on environmental standards (Murray and Raynolds 2000:67).

Ethical consumerism also focusses on affecting business practice through awareness campaigns, producer boycotts, and regulation lobbying carried out on the part of NGOs and consumer interest groups. Such initiatives “tend to focus on companies which share particular characteristics: retail brands, southern sourcing of manufactured or natural resource products, and European or North American ownership” (Burns 1999:12). The effectiveness of campaigns is often substantial: consumer campaigns “have succeeded in

bringing pressure on large brand name companies in the garment and food sectors to [adopt more socially and/or environmentally responsible practices]” (Burns 1999:12). Famous and successful examples of prominent consumer campaigns include the boycotting of dolphin-unfriendly tuna in the 1980’s, products from South Africa during the apartheid regime, and the Nestle baby-milk boycott of the 1970s.

2.3.2.1. Socially Responsible Investing (SRI)

The ‘socially responsible investment’ movement (SRI), is gaining an increasing foothold in the global marketplace; indeed, the popularity and influence of SRI is one of the most dramatic testaments to the success of ethical consumerism. The Domini Social Equity Fund, which is the largest socially responsible and also the 15th most popular mutual fund in the United States, includes 400 companies which have been screened for environmental and social responsibility (Business Wire 3/2/00:para. 1). In total, in early 2000, the fund had US\$1.7 billion in assets under management, which represents a 93% increase from 1998 (Business Wire 2/3/00:para. 5). According to the Domini Social Index website (www.domini.com), the index includes “companies with positive records in community involvement, the environment, employee relations, product related issues, and hiring practices...it strives to avoid companies with significant revenues from alcohol, tobacco, gambling, nuclear power and weapons contracting”(‘Community, Our Approach’ n.d.:para.5). Says Amy Domini, founder of the Fund: “The Fund’s...success has helped pave the way for other socially responsible funds, by demonstrating that social screening can produce competitive returns...By screening their investments, social funds help to build a corporate accountability structure—a framework investors can use to evaluate and address corporate social and environmental performance” (Business Wire 3/2/00:para. 2). As the popularity of social funds has increased, “some of the largest asset managers in the world have introduced funds designed to meet the needs of socially responsible investors;” for example, Dow Jones and Co. have launched the Dow Jones Sustainability Group Index, and companies like the Jupiter Ecology fund, City Financial Acorn Ethical fund, and Norwich UK ethical rank in the top ten of the fastest growing funds in the UK. (Business Wire 3/2/00:para. 2; Mannion 1/7/01:para. 3). Simon Baker

manager of Jupiter Ecology states that: “Socially responsible sectors are now great growth sectors. There is a strong demand for renewable energy, as well as environmental technology such as electronic fuel-cell technology, bus and rail companies, [and]...education solutions” (Mannion 1/7/01:para. 3).

Chart 2.1. Example of Screening Criteria for Companies According to the Domini Social Index

Community	
Strengths	Concerns
Generous Giving: The company has consistently given over 1.5% of trailing three year earnings before taxes (NEBT) to charity, or has otherwise been notably giving in its charity.	Investment Controversies: The company is a financial institution whose local investment practices have led to controversies, particularly ones related to the Community Reinvestment Act.
Innovative Giving: The company has a notably innovative giving program that supports nonprofit organisations such as those promoting self sufficiency among the economically disadvantaged	Negative Economic Impact: The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, etc...
Support for Housing: The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged	
Support for Education: The company has been innovative in its support for primary –or secondary school education, particularly those programs that benefit the economically disadvantaged.	

(Source: adapted from ‘Community: Our Approach,’ n.d.:para. 5)

The socially responsible investment movement has demonstrated how socially responsible business is gaining ground and popularity. Yet perhaps more fundamentally, SRI has succeeded in articulating the economic incentives of social responsibility to mainstream business, through elucidating the market for socially responsible goods and/or services. As represented, in the business world it has become an increasingly popular notion that social responsibility is a mainstay for business survival, and, in addition, that the financial rewards of business responsibility are emerging as a means to succeed in a highly competitive and increasingly scrutinized global marketplace. Conclusively, it is important to briefly consider the economic sanction for socially and/or environmentally responsible behavior.

2.4. Economic Incentives for Business Social Responsibility

The importance of incorporating ethics into business has proven to be not only financially rewarding but also *necessary*. This statement is based on the fact that consumers are increasingly willing to act on their ethical beliefs, as well as the fact that socially responsible companies have proven themselves as lucrative, and furthermore, that “non-socially responsible sectors as a whole have gone into decline...In November 1990 the chemical sector represented 3.19 percent of the All-Share index, yet in November 2000 it accounted for only 0.76%... Tobacco represented 2.62 in 1990, compared with 0.96 today, while automobiles have fallen from 0.76 to 0.39%” (Mannion 1/7/01:para. 8).

Social responsibility holds many market incentives for business, as a means to remain in a more demanding market or to become more competitive. At the top of the list, business social responsibility can ensure access to and survival in the world's competitive marketplace, as environmental and social standards rise in many wealthy nations, and as business practices are increasingly placed under greater consumer scrutiny. Responsible business practices can result in an avoidance of damage to a company's reputation. The harm done to a company's reputation because of an environmental or social issue can be devastating: indeed, “a company that is reliant on a brand can see its key asset, and consequently its share price, damaged as a result of a consumer backlash when, [for example,] the use of third-world sweat-shop labour practices are exposed” (Mannion 1/7/01:para. 18), or when, for instance, a harmful chemical or disease is found in a food product. Business for Social Responsibility (BSR), based in San Francisco, California, has found that “companies perceived to behave unethically toward shareholders, employees, the community, or other stakeholders are more likely to find themselves the target of activist pressure, boycotts, or ‘denial of service’ attacks.... Conversely, companies with a demonstrated commitment to ethical behavior can accrue a kind of ‘integrity capital’ among stakeholders and the general public” (‘Business Ethics’ n.d.:para. 7). Furthermore, the BSR highlights the following benefits of business social responsibility:

- “A 1999 DePaul University study of 300 large companies found that firms making an explicit commitment to follow an ethics code provided more than twice the value to shareholders than companies that did not. A 1997 study carried out at the same university found that companies with a defined corporate commitment to ethical principles outperformed (based on annual sales/revenue) companies that don’t” (‘Business Ethics’ n.d.: para 4).
- “A U.S. employee survey carried out in 1999 by Walker Information and the Hudson Institute found that only 9% of employees who thought their senior management was unethical were inclined to stay with their companies, while 55% who believed their leaders were ethical wanted to stay....A multisector survey carried out in the U.S. by the Hudson Institute in 2000 found a positive correlation between high ethical standards, work commitment, and loyalty, and concluded that ‘employees who believe they work in an ethical environment are six times more likely to be loyal than workers who believe their organisation is unethical’ (‘Business Ethics’ n.d.:para. 6).
- “Unethical conduct can result in increasingly substantial fines. For example, the European commission...fined Volkswagen more than US\$90 million in 1998 for violating competition rules (‘Business Ethics’ n.d.:para.8).
- “As large companies increasingly look beyond their own ethics practices to those of their suppliers as well, supplier firms that have poor ethics practices may find contracts canceled or future business lost” (‘Business Ethics’ n.d.:para. 9).
- “The Social Investment Forum reported more than US\$2 trillion in assets in 1999 were managed in portfolios that screen for ethical, environmental, and other socially responsible practices. This represents more than 12% of the US\$16.3 trillion in funds under professional management in the United States. Companies addressing ethical... responsibilities may have access to a rapidly growing pool of capital that might not otherwise be available” (‘Business Ethics’ n.d.:para. 10).

2.5. Conclusion: The Necessity of Social Responsibility for Business

As demonstrated, the evolving field of business social responsibility has widened in recent years to encompass a wide array of consumer concerns catalyzed by increasing globalization and market liberalisation; mainly, those that focus on social and environmental issues. Furthermore, business social responsibility has emerged from a relatively minor role to a well established, if not inexorable, part of modern business. While the relationship between business and society has always been controversial, from the time of Adam Smith to the early 21st century, it is clear that with the advent of increasing globalization and financial liberalisation and deregulation, and the phase-out role of the state, business is consequently subject to a hitherto unprecedented consumer pressure to monitor and regulate its activities. Modern consumer fears center around the decreasing power of the state to regulate business and the rise of giant multi-national enterprises, which have contributed to sweatshop scandals and the exploitation of the developing world; in addition, food safety scares in Europe and the United States have resulted in a rallying cry for more accountable and transparent business practices. The importance of business social responsibility to modern day business practices pervades the market, as represented by the growing base of ethical consumerism and socially responsible investment. Moreover, responsible practices have grown to signify economic prosperity and success, as signified by the myriad of economic benefits that accrue to socially and/or environmentally responsible business, such as ‘integrity capital,’ the avoidance of boycotts or media exposure, and access to a growing pool of capital. Accordingly, many businesses have realised the importance of “incorporating core values- such as honesty... respect, and fairness- into its policies, practices, and decision making” in order to gain the trust of consumers and therefore achieve financial prosperity (‘Business Ethics’ n.d.:para. 1).

This momentum can be encapsulated as the following (Cannon 1994:28-29)

“...a new paradigm seems to be emerging. The new paradigm will need to reflect a new relationship between the means to generate wealth and the strategies to distribute wealth. It will

be founded on an understanding of ethics and values in the contemporary world with a recognition of the limits and risks of executive action. If the past teaches anything about corporate social responsibility, it is that the risks of doing nothing far outweigh the risks of doing something.”

In the next chapter, we will explore how business is addressing and meeting consumer demands for increased business social responsibility, by actively participating in the call for *ethical trade*, in adopting *mechanisms* to promote, ensure, and verify the social and environmental aspects of business operations.

CHAPTER III

The New Business Social Responsibility: Ethical Trade and Voluntary Private Regulation

3.1. Introduction: Ethical Trade

Business social responsibility has burgeoned into a vast field, as described in Chapter II, as concerns over environmental and social responsibility have increased substantially in Europe and the United States. Thus, there exist many market incentives for business to match consumer concerns with socially and/or environmentally responsible products or services. The adoption of environmentally and/or socially responsible business practices within the value chain has acquired the name of *ethical trade*, or *ethical trading*. Because of increased public demands to ensure business accountability, efforts to build ethical trade often use *voluntary private regulation*, which frequently takes the form of *codes of conduct* or *labeling initiatives*, to monitor and verify business social and environmental responsibility. In other words, it can be said that this ‘institutionalisation’ of a socially and/or environmentally responsible framework within a business’ operations is what differentiates the definition of ethical trade from business social responsibility. As such, for the purposes of this research, ethical trade can be defined as “*the adoption of societally and[/or] environmentally responsible strategies within the value chain, the monitoring and verification of these strategies as well as the communication of these strategies to key stakeholders* [e.g., through marketing, etc.] (Blowfield ‘An End or a Means?’ 1999:1).”

3.1.1. Defining Ethical Trade

It is important to mention that the term ‘ethical trade’ has been used to define a wide variety of different initiatives; indeed, many organisations associate different meanings to the term. For example, the same organisation (the Natural Resources Institute Ethical Trade Programme) refers to ethical trade as both the “*trade* in goods produced under

conditions that are socially and/or environmentally responsible as well as economically responsible” (NRET 1999:1) and as “the *adoption* of societally and environmentally responsible *strategies* within the value chain, the monitoring and verification of these strategies, and the reporting of societal and environmental performance to key stakeholders” (Blowfield ‘An End or a Means?’ 1999:1). Similarly, perhaps the most well-known definition of ethical trade is the one promulgated by the International Federation of Fair Trade (IFAT), whereby ethical trade has been defined as the incorporation of core *labour* standards into mainstream business (‘Fair Trade and Ethical Trade’ 1998:para. 2). The IFAT definition uses the term ‘mainstream’ business to denote the difference between the aforementioned and disadvantaged producers involved fair trade arrangements. In addition, ethical trade is commonly used to refer to “North-South” trading relationships; as a means to promote responsible ‘Northern’ business practices in the Third World. Accordingly, many NGOs and alternative trade organisations (ATOs) associate ethical trade with having a developmental impact in developing country sites of operation. In fact, because ethical trade has been embraced owing to its seemingly broad, and optimistic potential as a tool for encouraging development and equitable change, its definition is so varied and complicated. In other words, as every organisation has its own agenda, so it has its own definition and use for ethical trade.

This research attempts to illustrate that ethical trade is, fundamentally, a way of building business social responsibility through private regulation, which entails the adoption and monitoring of socially and/or environmentally responsible practices, as well as the communication of these practices to key stakeholders (as in, but not necessarily, through marketing/advertising efforts). Therefore, ethical trade can be the incorporation of *both* socially and environmentally sound strategies within the value chain of a business, or either individually.

3.1.2. Categorising Ethical Trade

The focus of ethical trade initiatives varies widely. Reasons for this broad scope can be attributed to the many role players involved in building ethical trade in the marketplace; tactics to provide guidelines and strategies for business social and environmental responsibility are usually created, proposed, and/or catalyzed by NGOs, trade unions, government, or, most commonly, by business itself, as well as collaborative efforts which unite several or all of the aforementioned parties. Most frequently, ethical trade denotes incorporating codes of conduct into a business, based on the company's own standards and/or independent standards, created by an NGO, [e.g., the Council for Economic Priorities (CEP)], or drawing on internationally recognized standards, [e.g., the International Labour Organisation (ILO), or the International Standards Organisation (ISO)]. Many independent codes require third-party auditing to provide certification or accreditation. Such accreditation can often result in a label. Codes of conduct that unite players across the board, such as collaborative efforts on the part of NGOs, trade unions, business, and government, have gained worldwide attention, with the establishment of the largest ethical trade organisation, the Ethical Trading Initiative (ETI), based in the UK. Other joint initiatives gathering hybrid and wide support include: the CEP Accreditation Agency, which has published the SA8,000 standard covering labour issues; the Clean Clothes Campaign, created to monitor labour standards in garment factories; and the Apparel Industry Partnership, which was designed to create a "no sweat" label, denoting the absence of sweatshop labour in garment manufacturing. As Burns emphasizes in 'Approaches to Ethical Trade,' different initiatives have varied criteria for ethical standards, as well as different ways of implementing and monitoring codes, varied methods of marketing the ethically-sourced product (i.e. labeling or certification), and importantly, diverse target issues (1999). Such diversity can invariably result in problems (Diller 1999:101):

:

"...claims by enterprises...concerning social [and/or environmental] improvements achieved through private initiatives are not easily categorised, evaluated, or compared. Some controversy may thus be inevitable. These initiatives operate across diverse economic, political, and legal

contexts, without standard reference points or generally accepted methods of development, implementation or assessment.”

However complicated, it is important to provide an overview of the different attempts at voluntary private regulation that seek to build environmental and social responsibility in business, separating these schemes into codes of conduct and labeling initiatives (Blowfield ‘Ethical Trade’ 1999).

3.2. Codes of Conduct

3.2.1. Private Company Codes

The most common form of a code of conduct is a private company code, whereby a firm promulgates and operates under its own set of standards. According to the International Labour Organisation (ILO), the code usually takes the form of either a ‘compliance code’, which gives “directive statements giving guidance and prohibiting certain kinds of conduct,” or ‘corporate credos’, which are “broad general statements of corporate commitments to constituencies, values, and objectives;” or finally, ‘management philosophy statements,’ which are “formal enunciations of the company or CEO’s way of doing business” (‘Corporate Codes’ n.d.:para. 5). This voluntary nature of arranging and implementing codes of conduct means that labour and environmental standards vary in scope and significance from company to company. Indeed, because “corporate codes of conduct are completely voluntary, [they] can take a number of formats and address any issue- workplace issues and worker’s rights being just one possible category...Also, their implementation depends totally on the company concerned” (‘Corporate Codes’ n.d.:para. 2). However, most codes generally deal with “child labour, forced labour, wages, benefits, working hours, disciplinary practices, freedom of association, and health and safety...[as well as] policies regarding legal compliance, ethics, environmental practices and community investments” (‘Codes of Conduct’ n.d.:para 2). However, the drafting, monitoring, and evaluation/enforcement of codes of conduct is completely *dependent* on the company concerned; a fact which has resulted in a myriad of varying

codes, and a certain inability to 'harmonise' or assess the impact of codes on an international level.

Furthermore, there have been problems of transparency in many private company codes. For instance, in many firms, "codes are treated as confidential documents, and only very general information on their content is released to the public" (Blowfield 'Ethical Trade' 1999:4). Yet the use of codes as a marketing tool "intended to serve as the expression of a commitment to a particular enterprise conduct" and to be communicated to key stakeholders, inherently means that "information about the code must be communicated externally to become known to consumers, suppliers and others, whether through company advertising, published annual reports, audit letters, or third-party certification which itself is communicated to the outside world (e.g. through a label)" (Diller 1999:103). However, companies may have 'good reason' to withhold information concerning codes of conduct, for fear of risking public embarrassment concerning company behavior. For instance, codes concerning labour conditions are often ambiguous, especially in developing country sites of operation. This has resulted in accusations of 'selectivity' and neglect with regards to which labour standards a company implements. According to the ILO ('Corporate Codes' n.d.:para. 44):

"Although many of the corporate codes of conduct address the same set of labour standards, there are significant differences in how these standards are defined. In some instances, the corporate codes follow international definitions of labour standards (e.g. those promulgated in ILO conventions). In other instances, the corporate codes of conduct themselves define the standard. In other instances, the codes do not provide any guidance on the definition of the standard. For example, concerning child labour, a company's policy statement may: (1) state a minimum age that must be met by all employees who produce their products (2) refer to the national laws of the host country regarding minimum age of employment or compulsory schooling (3) refer to international standards (4) use some combination of these three. In some cases, companies' policies prohibiting child labour in the production of their goods do not contain any definition of child labour at all, leaving the standard open for interpretation by their business partners."

In addition, according to a recent survey by the ILO of 215 codes of practice, only 15% addressed the principles of freedom of association and collective bargaining, “which are fundamental to trade union development and functioning” (Diller 1999:112). Such powerful evidence reveals the bias and problematic nature of company codes concerning labour rights; indeed, many companies perceive trade unions as a threat, and therefore avoid codes that address labour advocacy issues.

Owing to such problems with intra-firm codes, “there is a general agreement among labour rights advocates and even some companies that internal monitoring (by company staff) of supplier compliance with codes of conduct is not adequate” (Burns 1999:19). Although “enterprises generally favour internal reporting because of concern about leaks of confidential information,” this sort of self-policing can be dubious and misleading, and subject to consumer skepticism (Diller 1999:119). More importantly, many codes that are launched in the North never become translated into sites of production (Blowfield ‘Ethical Trade’ 1999:5), and “code implementation systems often lack sufficient human resources, adequate participation by workers, and transparency in application” (Diller 1999:119). Because of these problems with private monitoring, many companies have adopted third-party auditing. According to business ethicist Richard Welford, third party consumer auditing can serve three functions in the marketplace: “firstly, it can act as an independent evaluation and endorsement of a product; secondly, it can operate as a consumer protection tool, and thirdly, it can be used to achieve specific policy goals set by either the firm or regulatory agencies” (Welford 1995:167). Thus, there has been the development of consulting firms that provide social and/or environmental auditing services to businesses, as such third-party involvement is viewed as critical in providing credible social audits to many stakeholders (‘Social Audits’ n.d.:para.1).

3.2.2. Multi-Firm Standards or Umbrella Codes

The business community has expanded efforts to build industry-wide or umbrella codes and standards for ‘best practice.’ Independent standards are usually drafted by NGOs, associations of business, or as collaborative efforts between government, NGOs,

business, and/or trade unions. The business world has seen a proliferation of such initiatives, which aim to provide firms with model or benchmark standards. Independent codes can be 'self-audited' by companies, or are subject to third-party auditing by either the organisation which promulgated the code or by auditing firms accredited by the organisation. Part of the rise in independent standard-setting has evolved out of the "need for more standardisation of codes, partly to make compliance easier for suppliers of several firms, and also to encourage second-tier firms, which do not have the resources to develop their own codes, but want to adopt a 'ready-made' code" [Seyfang 2000:11 (ETI 1999)].

3.2.3. Examples of Multi-Firm Codes:

a) The Ethical Trading Initiative (ETI)

The Ethical Trading Initiative (ETI) is a large collaborative effort on the part of trade unions, government, corporations, and NGOs in the United Kingdom to establish common ground for the standardisation and verification of labour codes. The ETI's central feature is its base code that focusses on employment conditions, and is based heavily upon major ILO conventions. The stated purpose of the organisation is "to identify and promote good practice in the implementation of codes of labour practice, including the monitoring and independent verification of the observance of code provisions" ('ETI Profile' 2000:para. 1). Since its inception in 1997, the ETI has drawn a wide range of support from various groups across the public and private sector. The organisation has approximately 16 corporate members, 6 trade union members, and 18 NGO members. According to the ETI, "the annual turnover of ETI member companies increased to over 60 billion pounds per year" in 2000 ('ETI Profile' 2000:para.13). Companies participating with the ETI have pledged to provide annual reports on their adoption of the ETI base code in their sites of operation; therefore, companies must provide auditing services, as the ETI does not yet have the capacity to be an auditing body. In total, approximately 1,183 suppliers were evaluated by member companies during 1999: "of these, 781 were found to have non-compliances, which gives an indication of the scale of the challenge" ('Tackling Supply Chain' 2000:para. 3). In

addition, the ETI carries out three pilot projects, working with different sectors in developing country sites of operation: wine farming in South Africa, textile production in China, and horticulture in Zimbabwe. The pilot projects are expected to expand to bananas in Costa Rica and garments in Sri Lanka.

While the ETI is a fairly new project, it has acquired substantial momentum thus far. One of the most important developments in the ETI is its potential to build a standard for social responsibility within the agro-food chain. Major UK supermarkets, such as ASDA, Tesco, Safeway, Sainsbury's, and Marks and Spencer, have joined the ETI and are implementing the base code across supply chains. Each supermarket chain has its own method of implementing the code: for instance, while Sainsbury's is implementing the code for suppliers producing only its 'own brand' products and fresh produce, Tesco is attempting to 'roll out' the code to all its suppliers. Nonetheless, it is expected that, in the future, the base code will become a standard feature in all participating supermarkets' in-house sourcing policies. The recent entrance of Wal-Mart into the UK supermarket industry could perhaps deter attempts to build ethical trade, given the American supermarket industry's relative unfamiliarity with the Ethical Trading Initiative.

b) SA 8,000

The SA (Social Accountability) 8,000 was promulgated in 1997 by the Council on Economic Priorities Accreditation Agency (CEPAA) as a consensus labour standard, whose structure is modeled upon the ISO's system of quality management (ISO 9,000), and its standards largely based upon ILO conventions regarding human rights and fair labour conditions. The main feature of the SA 8,000 is its aim to provide a common auditable labour code that can be incorporated across different industries. Indeed, "the benefit of such a system is that the fragmented and confusing array of individual company codes of conduct can be replaced by a single consistent code, simplifying both the adoption and monitoring of such codes of conduct" (Seyfang 2000:24).

c) *ISO 9,000 and ISO 14,000*

The ISO 9,000 and 14,000 standards deal with, respectively, total quality management and environmental responsibility. The International Organisation for Standardisation, part of the UN, created these standards to build an auditable management system for 'best practice' in both these areas, and to facilitate trade by providing a common reference point for a certain industry. ISO certification, although voluntary, has quickly become extremely common in many firms across the globe, and is often considered as a prerequisite to market access. While the ISO typically sets specific product standards (i.e., highly technical standards like credit card width), its ISO 9,000 and 14,000 standards are *generic management system standards*, meaning that they provide a model for setting up and operating a management system based on standards of environmental responsibility and/or quality control ('ISO 9,000 and 14,000' n.d.:para. 1). Put differently, these standards state requirements for what an organisation must do to manage processes influencing quality (ISO 9,000) or the processes influencing the impact of the organisations activities on the environment (ISO 14,000). However, the ISO does not carry out auditing and verification. Rather, members must employ a third-party auditor accredited by the ISO to verify adherence to standards.

d) *EUREPGAP*

In 1997, the Euro-Retailer Produce Working Group (EUREP), an association of many of the largest retailers in Europe, along with growers, marketers, retailers, verification organisations, agrochemical companies, scientists, and certification scheme owners, developed a set of 'good agricultural practice' (GAP) guidelines for suppliers to the agro-food chain. These standards were developed over concerns on food safety and environmental quality control, and sought to provide a framework for 'best practice' in agricultural industries across Europe, drawing heavily upon HACCP principles. Growers are expected to implement the EUREPGAP standards on a self-monitoring basis, with intermittent outside spot-checks. Overall, a prominent aspect of the EUREPGAP system has been its industry-wide acceptance in Europe. This voluntary standard has become the 'norm' for suppliers to European food retailers, and represents the most powerful example of a voluntary standard setting an '*ethical floor*' in a market. According to the

EUREPGAP website, “producer organizations from all continents have applied for EUREPGAP membership and look for integrated and cost-effective solutions to delivering reassurance on food safety” (‘History’ 9/3/01:para. 6).

e) Coalition for Environmentally Responsible Economies (CERES) Global Reporting Initiative (GRI)

The CERES organization, a US-based NGO, created the Global Reporting Initiative (GRI) in late 1997 as a means to provide companies with a framework for social and environmental accountability. The GRI is a “set of procedures and uniform format for the disclosure of information collected by firms about their economic, social and environmental performance” (Seyfang 2000:24). Firms must follow a ten-point set of principles in order to self-assess their social and environmental performance, which is then measured against the Sustainability Reporting Guidelines, which specifies “the indicators and measures required to answer set questions regarding sustainability performance” (Seyfang 2000:24). Fundamentally, the GRI is an attempt to build social and environmental accounting and self-auditing alongside financial accounting practices; indeed, its purpose is to “elevate sustainability reporting to the level of financial reporting by delivering a steady flow of consistent, comparable, and verifiable information to investors, environmentalists, consumers, and other stakeholders” [Seyfang 2000:24 (CERES 1999b)].

f) Apparel Industry Partnership (AIP)

The Apparel Industry Partnership is an umbrella or ‘consensus’ standard that aims to provide guidelines for best practice in the garment industry, focussing on labour conditions, as well as providing a ‘no sweat’ label to participating companies. The development of this partnership, initiated in 1996 by US Labour Secretary Robert Reich, followed a series of sweatshop-scandals in American garment factories in developing countries where child labour was frequently used (Seyfang 2000:4). This “high profile publicity surrounding the use of child labour in clothing factories had raised public concern about poor working conditions in the production of many high-street brand names such as GAP, Nike, Reebok, Patagonia, Liz Claiborne and many others” (Seyfang

2000: 24). Similar to the ETI, the AIP unites a wide variety of players from NGOs, government, trade unions, and businesses. Still under negotiation in many aspects, the AIP has caused a large degree of dissention between parties, and is thus not yet being implemented (Seyfang 2000: 25).

3.3. Labeling Initiatives

Although labeling initiatives have much in common with codes of conduct, it is useful to examine labeling as a separate means of establishing ethical trade in the marketplace (Blowfield 'Ethical Trade' 1999). The fundamental concept is that, in order to obtain a label, firms have to comply with certain standards or codes of conduct, yet the highly visible accreditation in the form of a label provides a direct method of marketing ethical trade. It can be said that, whereas codes of conduct are helpful to a firm in terms of marketing ethical trade to *buyers* and *shareholders*, labeling initiatives are more instrumental in communicating ethical standards to the *consumer*.

Standards required for receiving a label are typically determined by the labeling organisation itself (i.e., Fair Trade Labeling Organisation), which accredits auditors to monitor and verify codes, or carries out auditing itself (i.e., Kenya Flower Council, Milieu Project Sierteelt) (Blowfield 'Ethical Trade' 1999:8).⁴ In addition, some independent labeling organisations function like a custodian body [i.e., the Forest Stewardship Council (FSC)], and will set general standards, which can then be adopted by accreditation agencies; these agencies will then certify or approve separate auditing bodies. However, labeling schemes can also be established by private companies. Yet as illustrated, such self-policing and self-promoting schemes are met with considerable consumer criticism: indeed, the objectivity of the label "has been questioned in cases where the label is controlled by an *industry association* or an organisation with close links to a particular company or industry" (Blowfield 'Ethical Trade' 1999:8). Moreover, scandals of eco-labeling in the 1980s, where companies lied or purposefully misled consumers through a label that ensured environmentally-friendly production, have

⁴ See Appendix I for a table of labeling initiatives.

contributed to a great decline in private initiatives, such that now, “ethical businesses will always seek third party verification of any claim they are making for any label which they wish to use” (Welford 1995:167).

Labeling is beneficial as a marketing tool because it typically reduces confusion in the marketplace, by providing a clear and solid message that the product has been produced under environmentally and/or socially responsible practices. In this manner, labeling may have a more direct economic incentive than implementing codes of conduct, the details and results of which are rarely released to the public and are usually communicated only to buyers and shareholders. By the same token, labels may provide producers with a strong economic incentive to act ethically; especially if the market allows for an *ethical premium* attached to the product. Furthermore, labels “can reduce the costs of ethical trade by creating greater economies of scale, and [provide] access to a greater body of expertise than could be afforded by most individual companies” (Blowfield ‘Ethical Trade’ 1999:8). As Welford states, “in theory, if the market share of a company product certified by [an ethical auditing organisation] increases, manufacturers of products that did not seek the label will be induced to change or risk losing market share”(Welford 1995:167). Importantly, labels may serve in creating consumer awareness of social and environmental problems, and may generate solutions to such problems, through “improving working conditions, [raising] funds for educational and rehabilitational programmes for former child workers, and [improving] compliance with labour laws” (Diller 1999:120). However, like codes of conduct, labeling is not without its limitations. Fundamental obstacles to labeling initiatives include the disjointed nature of ethical initiatives and criteria for labels, and the efficiency of monitoring and verifying standards.

3.3.1. Problems with Codes and Labels

3.3.1.1. *Conflicting Standards and Impacts*

Ethical trade initiatives, “as with any area of innovation, [have] been characterised by a proliferation of initiatives, claims, and conflicting standards” (Burns 1999:18). Because of the ambitious nature of ethical trade, which seeks to codify some of the most controversial, varying aspects of a business’ operation, it is perhaps inevitable that this field has encountered a wide array of problems. For instance, one of the most problematic areas for ethical trade centers around labour standards. In a recent review by the ILO of various codes and labeling initiatives, it was found that “most codes and labeling programmes tend to reflect their drafters’ own definitions of what the desired improvements in labour practices should be” (Diller 1999:115-16). Shockingly, “in all, no more than one-third of the codes and labels reviewed referred to international standards, whether general human rights standards or labour-specific standards;” furthermore, “most self-definitions differ from, and even contradict, international labour principles” (Diller 1999:115-6). Moreover (Diller 1999:101):

“The growing number of private-sector initiatives concerned with labour practices raises a host of...issues...For example, how do such initiatives relate to other efforts to achieve social justice through better working conditions and fuller employment, particularly those made through public policy or regulation? And what sort of effects, if any, do they have on the social dimension of international trade, and on economic development in particular? Is it fair to be skeptical of their value, or should they be welcomed as a step in the right direction?”

Indeed, there is a paucity of research that evaluates the *impact* and *effectiveness* of codes of conduct and labeling initiatives on improving social and environmental conditions. For instance, “a search of the available literature on ethical trade reveals very little evidence but a lot of wishful thinking about the impacts of ethical trade on its intended beneficiaries...This may be because many of the initiatives are relatively recent developments” (Burns 1999:19). Furthermore, the proliferation of initiatives and their varied sites of operation puts enormous pressure on the ability of researchers to estimate

the overall benefits of ethical trade. Put differently, the lack of harmonisation between codes has resulted in an inability to successfully ‘measure’ their effects. It is generally assumed that codes and labels have both positive and negative effects, yet this trade-off remains nebulous, for instance (Diller 1999:120):

“[Codes and labels may result in positive developments but]...may also bring adverse effects, including financial difficulty among participating enterprises and consequent loss of jobs. Higher prices of labeled products may result in lower penetration of the market, and child workers may be driven into less formal sectors where their exploitation is more difficult to eliminate.”

In addition, one notable concern is the fear that the market opportunity for ethical trade will be captured by large companies; indeed, “the demands of ethical trade may be most easily and profitably met by multinational companies...[thus,] ethical trade may strengthen the economic power of multinational corporations, thus squeezing out small and medium sized enterprises and small producers.” (Burns 1999:22). Accordingly, it is feared that ethical trade may become an end in itself, neglecting the kind of social and environmental progress and improvement that voluntary private regulation attempts to target. In addition, as voluntary standardisation becomes more of a requirement than a ‘step above,’ this leads to questions about the ‘voluntary’ nature of ethical trade. As represented by the examples of multi-firm and umbrella codes, these popular standards are increasingly becoming the norm across many different industries. For instance, “private sector initiatives are supposed to be voluntary only because they are not directly enforced by law, but some – particularly representatives of developing country enterprises or governments – contend that market pressure effectively renders them compulsory on terms which can be unfair” (Diller 1999:100-101). Certainly, this rising ‘floor’ criterion may edge out many producers who are not able to afford the kind of accreditation and monitoring systems that certify social and/or environmentally responsible practices. In this scenario, the impact of ethical trade is double-edged: on the one hand, while larger companies practicing ethical trade invest in their affiliates in poor countries, which can be said to be a positive development, on the other hand, poorer producers will not be able to meet elevated standards and thus will not be able to obtain

market access. In sum, “whether they stem from codes, labeling programmes or other initiatives, socially [and environmentally] responsible sourcing conditions can have critical implications for developing country enterprises in a value chain, especially for small and medium-sized enterprises” (Diller 1999:120).

3.3.1.2. Problems in developing country sites of operation

One of the most problematic areas for codes of conduct and labeling initiatives involves their implementation in a business’ affiliate in a developing country site of operation. While there may be a high degree of correspondence between Northern companies and their affiliates in the South, this does not guarantee adherence to codes (Blowfield ‘Ethical Trade’ 1999:3). Moreover, many companies are hesitant to give information on the working conditions of their overseas counterparts: an “ICHRDD survey of 43 Canadian companies in 1996 indicated that Canadian companies are reluctant to speak about their relations with workers abroad...Even companies that report having codes of conduct are reluctant to share them with the public” (‘Corporate Codes’ n.d.:para. 54). And quite frequently, a company’s code of conduct is not even distributed to the overseas production facility: “according to a US Department of Labour survey (42 US apparel companies in 1996), only a very few respondents indicated that they have tried to ensure that production workers in overseas facilities know about their code or policy by specifically requiring that copies of such statements be posted” (‘Corporate Codes’ n.d.:para. 60). Upon visits to production facilities in El Salvador, the Dominican Republic, Honduras, and the Philippines during the Dept. of Labour survey, officials found that the vast majority of plant workers had no knowledge of the code of conduct (‘Corporate Codes’ n.d.:para. 61). This “lack of awareness on the part of workers” can be attributed to the fact that, quite often, workers are excluded from any management process, as abiding by codes of conducts is seen as “a management problem...workers are not seen by management as having a role in these activities” (‘Corporate Codes’ n.d.:para. 64).

In addition, many codes focus too narrowly on the locus of production, and fail to take into account many of the broader environmental and social ramifications of implementing codes in developing countries. According to Blowfield ('Ethical Trade' 1999:6),

"...The growth of a labour-intensive industry such as cut flowers or garments can attract migrant workers who put pressure on the resources of previously small rural towns, forcing up local rents, overloading sewage systems, and causing health problems in overcrowded slums. Equally, new employment opportunities may be a mixed blessing if they are dominated by a particular group (e.g., allowing men more access to money than women) or place additional burdens on other household members (e.g., increasing the domestic responsibilities of women unable to find work in factories). Much depends on power relations within the household and extended family, but [ethical trade initiatives]...do not consider this type of impact."

In the case of female home workers, who are oftentimes part of the supply chain, they often face potential unemployment if ethical codes of conduct are implemented in a developing country site of operation; indeed, "codes of practice may even worsen their situation by outlawing sub-contracting and reducing a source of desperately needed employment" (Burns 1999:16).

Furthermore, while management in developing country sites of operation may recognise and attempt to adhere to codes of practice, it is clear that management "is not free from constraints" that may be imposed by outside forces. Foremost, managers must comply with national legislation, if there exists a discrepancy between codes of conduct and national legislation, producers may "have no choice but to follow the law" (Blowfield 'An End or a Means?' 1999:10). Or, for instance, if the code of conduct guarantees a living wage, which is higher than the legal minimum, it may be problematic to enforce compliance. The totality of public infrastructure, government, unstable currencies and inflation, culture, and traditional gender relationships may contribute to key problems with the success of codes of practice (Blowfield 'An End or a Means?' 1999:12). It can therefore be said that a producer operates within a certain *ethical space*; put differently, overseas buyers, governments, banks and financial institutions, packaging companies, input suppliers, and freight companies all have a direct impact on the degree to which a

producer can operate under standards of ethical conduct (Blowfield 'An End or a Means?' 1999:12). Therefore, many ethical trade initiatives, in order to be successful, need increased feedback and participation from the grassroots level, or from developing country sites of operation.

3.4. Building successful ethical trade initiatives

Despite the inherent difficulties in building the voluntary institutionalisation of social and environmental responsibility in the marketplace, it can be said that there are several common factors that contribute to successful initiatives. Foremost in building codes of conduct and labeling initiatives, it is important to consider the commodity chain in which the business operates. Indeed: "[As] private sector initiatives [like codes and labels] appear to operate primarily in reaction to sectoral concerns or commodity linkages...the structure and operation of commodity chains play a defining role in the development and implementation of [these initiatives]"; thus, it can be said that "the longer the production chain and more complex the levels of contractors, subcontractors, and buying agents, the more daunting the code's application becomes;" whereas "the closer and more long-lasting the relationship between retailer and supplier, the easier the application of the code appears to be" (Diller 1999:109). This relationship illustrates the need for 'solidarity' building between linkages in commodity chains in order to create successful ethical trade initiatives (Diller 1999:109).

Furthermore, it is necessary that codes and labels take into account the many contextual factors that will ensure its successful implementation. As illustrated, codes must take into account their spin-off effects, especially in a developing country site of operation, and thus attempt to accommodate to potential outcomes. Drafters must also consider the effect of government legislation, amongst other specific factors, on a code's viability in a foreign location. As mentioned, the success of codes and labels will ultimately depend on the specific circumstance of the production environment, which will prevent or facilitate the implementation of environmental and labour standards. Successful initiatives should also provide a clear structure of the costs of compliance, thus

attempting to integrate an understanding of how cost affects both compliance and membership. Third-party auditing, rather than self-policing, is seen as a feature characteristic of successful ethical trade initiatives (Diller 1999). In addition, labeling initiatives require verifiable and lucid marketing techniques. Other factors that contribute to successful ethical trade initiatives are codes of conduct that (cited from www.bsr.org).

- “...cover all relevant and important issues: These can vary depending on such factors as sector (shoe manufacturers vs. coffee growers), sourcing regions (China vs. the Middle East), company standards (leadership vs. the industry norm), and company values (short term vs. long term strategies)” (‘Codes of Conduct’ n.d.:para 37).
- “...use language that reflects the company’s intentions with regard to enforcement: Outright bans on certain principles are found most often on subjects where clear, internationally-accepted principles are applied, for example, on child labour and forced labour. On issues where practices vary, and widely accepted, measurable standards are less available, companies are more likely to insert language which permits flexibility” (‘Codes of Conduct’ n.d.:para. 38).
- “...are crafted with the involvement and support of key company managers: Companies have found that drafting a code in conjunction with the functional areas responsible for some aspect of its enforcement is critical in getting the ‘buy in’ necessary for its effective implementation. This can include the following function[s]: Sourcing, Product Development, Quality Assurance, Purchasing/Buying Agents, etc...” (‘Codes of Conduct’ n.d.:para. 39).
- “...are communicated both internally and externally: Communicating the code to all key company managers as well as to business partners, workers, and the public, is essential to clarifying the provisions of the code and their importance. Communication can take several forms, including workshops for internal staff and vendors, meetings and signed agreements with business partners, posting codes on factory walls for workers, and making the code available to the general public” (‘Codes of Conduct’ n.d.:para. 40).
- “...include staffing plans and implementation efforts: A code’s effectiveness depends on successful enforcement mechanisms, which vary from company to company. Some companies dedicate staff solely to overseeing implementation of codes of

conduct. Other companies assign implementation duties to personnel whose core job responsibilities lie in other areas such as sourcing, quality assurance, or production engineering”(‘Codes of Conduct’ n.d.:para. 40).

Finally, codes and labeling initiatives must be continually improved upon, and must respond dynamically to challenges. However, many ethical trade initiatives, especially organisations that promulgate umbrella codes, lack sufficient funding and human resources to successfully promote and ensure adherence to codes (Blowfield ‘Ethical Trade’ 1999:9). Furthermore, it is increasingly important that more ‘grassroots’ involvement takes place in initiatives; feedback from sites of operation, for large companies, could help solidify and improve upon codes. Local ownership, in other words, is important in building compliance and positive reception to the initiative. It can therefore be said that, the more involved suppliers are, the more successful the code/label will be. Indeed, effective drafting, implementation, monitoring, and verification constitute the first steps or ‘tools’ towards building social and environmental responsibility within the marketplace. Only then can the real results and effects of ethical trade initiatives be assessed.

However, in the long run, the success of ethical trade ultimately depends upon the *market incentives for businesses to engage in social and/or environmental responsibility*. This movement is fundamentally consumer-based, thus the success of ethical trade invariably depends on consumer’s interest in purchasing socially and/or environmentally responsible products and/or services. For this reason, it is essential that ethical trade initiatives continue to raise awareness amongst stakeholders concerning social and/or environmental issues.

3.5. Conclusion: The Need for Ethical Trade – A Rising Ethical Floor

As witnessed, the increasing concern in the marketplace over social and/or environmental aspects of business’ operation and product manufacture has resulted in enormous consumer pressure on businesses to be accountable for their social and environmental

impact. This pressure constitutes the drive behind ethical trade, or the attempt by business to build social and/or environmental responsibility in the value chain. Because of the emphasis on accountability, this has prompted many businesses to adopt private regulations that monitor and verify their social/environmental practices. For this reason, ethical trade is closely linked to voluntary private regulation, which provides a mechanism for ensuring compliance and is a credible means to communicate social and/or environmental responsibility to stakeholders. As illustrated, there is a proliferation of different attempts to regulate business activity, ranging from self-drafted codes of practice, umbrella codes, and labeling initiatives, frequently drafted by NGOs, alliances of businesses, trade unions, governments, or all of the above.

Although these initiatives have many discrepancies and inter-related problems, it is clear that the ethical trade movement is substantial in today's marketplace, as seen in Chapter II. The clearest indication of this is the rise in industry-wide voluntary standards, which dictate certain environmental and social standards to all businesses within a market. In other words, *social and environmental responsibility are becoming key features in determining market access for suppliers*. Nowhere is this trend more evident than in the agro-food chain, where voluntary industry-wide standards like EUREPGAP and HACCP set environmental quality control criteria for all suppliers to the European market. In addition, the ETI's base code, focussing on labour standards, is expected to be 'rolled out' by participating supermarkets to all suppliers; thus, the ETI's standards in the UK supermarkets could set a precedent for social responsibility in the marketplace.

CHAPTER IV

The World Wine Business

4.1. Introduction

As any business in the age of globalisation, the key to the success of the South African wine industry lies in its ability to be internationally competitive. The purpose of this chapter is to describe the world market for wine in order to situate the South African wine industry in this broader context. Put differently, the issues analyzed will shed light on the angles of the industry that need greater investment and attention in order to ensure its success on a worldwide stage. First, it is necessary to provide an overview of the world wine market, focussing on production trends, consumer behavior, the regulatory environment, and marketing challenges. Such a description and analysis in these two chapters will provide the appropriate material for analysing the potential competitive benefits for the industry and ethical trade arrangements.

4.2. Wine Production Trends

For those involved in the world's wine industries, the production of wine is seen as much more than an agricultural commodity but a "highly desirable, branded consumer good" (The Economist 'Glug, glug, glut' 16/12/99:para. 1). This luxury good industry is inarguably well established (Moulton and Spawton 1997:327):

"...[the world wine industry] involves close to 6 million hectares of grapes in over 40 different countries, tended by over two and a half million growers. The vineyards produce grapes for over 21,000 enterprises producing 250 to 300 million hectolitres of wine each year with a retail value of US\$77 billion..."

The top five worldwide producers of wine are (in ranking order): Italy, France, Spain, the United States and Argentina. The top three producers contribute 50% to total global output and the top ten for 80% (Spawton and Moulton 1997:327). However, in 'Old World' wine producing countries (e.g., France, Italy, Spain, Germany), production is

falling; for instance, French wine production fell 17% over the period from 1986 to 1997. Reasons for this ebb in production can be traced to a declining number of growers, as well as to temporary factors such as government-subsidised replanting and vineyard restructuring, which has contributed to a decrease in cultivated land. This trend towards replanting has pervaded Europe as producers heed the demand for high quality wine, and as the European Union struggles to protect the interests of one of its most culturally crucial agricultural sectors.

Currently, the world faces an excess of unsellable wines, in the tradition of an agricultural industry characterised by oversupply. However, a more dramatic oversupply problem seems to be imminent: it is estimated that by 2005 the world will face a hitherto unseen surplus of wine. Such an oversupply could result in an intensified “battle among wine producing countries...The old-world producers in Europe will come under intense pressure from the confident and well-organised wine companies of the new world. And the new-world producers in Australia, New Zealand, and the United States will find themselves cast into the role of the new establishment, trying to fend off familiar competitors from South Africa, Argentina, and Eastern Europe, and new ones from Armenia, Georgia, Brazil and Mexico” (The Economist ‘Glug, glug, glut’ 16/12/99:para. 3). Reasons for the future oversupply can be traced to the subsidised replanting programmes of the European Union, whose wines will be ready to market in a few year’s time, as well as the increased plantings of many New World wine producers, especially Australia and the United States.

Table 4.1. Wine Production: Major Producing Countries (1 000 hl) (Ranked by 1997 volume)

Rank	Country	1981-85	1986-90	1991-95	1994	1995	1996	1997
1	France	67 462	64 641	52 886	53 235	54 354	57 047	53 612
2	Italy	72 146	65 881	60 768	58 776	55 702	58 772	50 847
3	Spain	33 964	33 519	26 438	20 995	20 876	31 000	33 887
4	USA	17 710	18 167	17 619	17 550	18 668	18 877	25 000
5	Argentina	20 463	19 914	15 588	18 173	16 443	12 681	13 500
6	South Africa	8 649	7 742	8 228	8 998	8 339	8 739	8 072
7	Germany	9 799	10 391	10 012	10 406	8 510	8 642	8 495
8	Romania	8 700	7 133	5 529	5 370	6 720	7 663	6 688
9	Australia	4 026	4 463	4 810	5 874	5 028	6 784	6 174
10	Portugal	9 076	8 455	7 276	6 521	7 255	9 711	5 727
11	Chile	6 600	4 135	3 326	3 598	3 164	3 824	4 549
12	Hungary	4 985	10 974	3 823	3 694	3 289	4 188	4 472
13	China	-	2 734	3 480	3 800	4 000	4 125	4 125
14	Yugoslavia	6 125	2 867	2 804	3 058	2 804	3 488	4 025
15	Greece	5 002	4 322	3 659	3 051	3 851	4 109	3 987
16	Moldavia	-	-	4 356	1 893	4 225	3 598	3 598
17	Brazil	4 005	2 968	3 095	3 020	3 128	2 320	2 743
18	Bulgaria	4 631	3 205	2 194	1 885	2 641	2 377	2 337

Source: [Loubser 1999:16 (O.I.V. 1997)]

Table 4.2. World Vineyard Hectares: Acreage by Country (per 1 000 hectares) 1997 rank

1997 Rank	Country	1986- 1990	1991- 1995	1995	1996	1997	% change 1986/90-97
1	Spain	1 504	1 290	1 196	1 162	1 155	-23.0
2	Italy	996	940	927	919	914	-8.2
3	France	1 073	985	927	916	914	-14.8
4	USA	316	304	305	309	315	-0.3
5	Portugal	295	271	261	259	260	-11.7
6	Romania	244	251	253	254	254	4.1
7	Argentina	259	209	210	211	209	-19.3
8	Yugoslavia	244	227	215	199	194	-20.5
9	China	143	148	164	177	188	31.5
10	Greece	160	138	135	132	132	-17.5
11	Chile	124	124	123	125	132	6.4
12	Hungary	142	133	131	131	131	-7.8
13	Bulgaria	140	136	118	109	109	-22.1
14	South Africa	100	102	103	106	108	8.0
15	Germany	102	106	106	106	105	2.9
16	Australia	59	65	73	81	90	52.5
17	Algeria	130	99	85	77	70	-46.2
18	Brazil	58	60	61	60	57	-1.7
19	Austria	58	56	52	52	49	-15.5

Source: (Wine Institute based on data from the *Office International de la Vigne et du Vin* (O.I.V.) 1999)

4.2.1. New World vs. Old World Wines

Although ‘old world’ wine production remains in the lead with a 60% market share of all wine produced, the increasing prevalence of ‘new world’ wines demonstrates the dramatic ascendance of those wines from Argentina, Chile, the United States, South Africa, New Zealand, and Australia. Indeed, new world wines increased their market share from 16% to 22% of world production between 1992 and 1997 (Loubser 1999:86). Production and cultivated area under vines in new world countries have, for the most part, increased substantially, largely owing to advanced biotechnology and favourable

climatic conditions. The 'fruity' characteristics of the warm-climate produced new world wines have contributed to their success; as the wines of the old world have a more esoteric appeal, and "tend to be noted for their complexity and finesse...which are blended from a number of grape [varieties] from a specific area or terroir..." (Loubser 1999:87). For both new and old world producers, the major cultivars used in the wine making business are 'noble' grape varieties, which produce a stronger and more characteristic fruit flavour. The following are examples of the world's leading and most popular varieties:

- Cabernet Sauvignon
- Sauvignon Blanc
- Merlot
- Chardonnay
- Pinot Noir
- Shiraz/Syrah
- Riesling

New world wine countries initiated a trend towards labeling wine according to cultivar, which has aided in reducing consumer confusion in the marketplace as the selection of and competition between wines intensifies. Old world wine producers have hesitated to embrace this trend: part of the tradition of European wine production has been a chateau or regional-based approach towards labeling. Furthermore, strict legislation governing European grape cultivation and wine production has limited these countries' flexibility in adapting their branding strategies. On the other hand, "not restricted by either tradition or legislation, the new wine countries have invested heavily in branding and innovation, attributes welcomed by today's...consumer..." (Rabobank 8/6/99:para.3). Perhaps most fundamentally, the more highly developed and vertically integrated wine industries in new world wine countries have sparked a revolution in the wine industry, whereby it "has become a business instead of a legacy" (Rabobank 8/6/99:para. 3). The main challenge for wine producing countries of the 'old world' is thus to become highly demand driven.

4.3. Consumer Behavior and Trends

Overall, the worldwide demand for wine has fallen by a quarter since 1982 (The Economist 'The Disappearing Drinker' 16/12/99:para. 1). Despite this drop in demand, several important and growing trends can be extrapolated. Although total demand has decreased, the demand for high-quality, premium wines is rising. In addition, although wine demand is falling in old world countries, it is on a rapid increase in traditional spirits and beer consuming nations as well as those in East Asia. Indeed, although "per capita consumption dropped by almost one-half between 1970 and 1994 in Italy, Spain, Portugal, and Argentina, and by 43% in France; it increased slightly in Australia, Canada, the U.S., and Germany" (Spawton and Moulton 1997:331). In East Asia, although demand is still low, it has grown at 12% per year since 1993 (see table 4.4). Several factors account for these demand trends.

4.3.1. Factors Affecting Consumption

Wine consumption has decreased in old world countries as Europe's citizens have become more health-conscious, and as wine has become less of a 'lifestyle' or day-to-day beverage and become "limited to fewer occasions" (Spawton and Moulton 1997:331). In addition, wine consumption in Europe is losing popularity with the younger generations. At bars and at social venues (e.g., nightclubs), wine is an unpopular drink, and liquor and beer are preferred. Indeed, "the average age of regular consumers of wine in France (defined as those who drink at least a glass every day) has risen to over 55, compared with only 35 a generation ago" (The Economist 'The Disappearing Drinker' 16/12/99:para. 2). This dramatic drop in consumption has not been offset by the rise in non-traditional wine consuming countries. Still, in France and Italy, the average person consumes 60 litres of wine per year, whereas in Britain the figure is closer to 15 litres (The Economist 'The Disappearing Drinker' 16/12/99:para. 3).

Furthermore, wine has become a player in an increasingly cutthroat world beverage industry. Indeed, "wine is in competition with a large number of beverages, many of

which are considered new products...They include tea-based refreshment drinks, ‘new age’ fruit-based soft drinks, low-calorie drinks, clear cola beverages, non-alcoholic beer and wine, bottled water, beverages in tetra-pack, flavored coffee, and pre-mixed cocktails” (Spawton and Moulton 1997:337). In the alcohol market, beer and spirits continue to reign as the most popular alcoholic beverages.

Table 4.3. The World Beverage Market: Retail Sales (US\$ billion)

Category	1998 Sales	1999 Sales
Beer	\$54.20	\$55.05
Bottled Water	\$5.2	\$5.92
Fruit Beverages	\$17.5	\$18.57
RTD Tea*	\$2.45	\$2.67
Soft Drinks	\$54.3	\$54.84
Spirits	\$34.05	\$34.80
Sports Drinks	\$2.65	\$2.91
Wine	\$17.38	\$17.91
Total Beverages	\$182.92	\$192.64

(*Refreshment Tea Drinks) Source: (The 2000 Beverage Market Index 2000)

Further reasons for the decline in wine consumption have resulted largely from government-sponsored alcohol awareness programmes, which aim to discourage alcohol abuse. In the United States, alcohol carries a negative social stigma, partly left over from the Prohibition era. Indeed, this stigma “has been enhanced by messages from prohibition groups that oppose all alcohol consumption, by extensive reporting of problems relating to alcohol abuse (e.g., drunk driving, assaults, divorce, etc) and by public policies that restrict advertising and promotion, control distributive practices, and require warning labels about alcohol consumption” (Spawton and Mouton 1997:338). During the late 1980’s, Barbara Bush’s ‘Just Say No to Drugs’ campaign succeeded in sharply cutting American demand for wine, which had been climbing throughout the 1970s and 1980s (The Economist ‘The Disappearing Drinker’ 16/12/99:para. 4). Today, the American government and other western governments have increasingly targeted, through taxation, so-called ‘sin’ products, like alcohol and tobacco; furthermore, American laws that have set strict limits on the inter-state shipping of alcohol have

interfered in the growth of wine demand. The result of such legislation and public-health campaigns is a public more wary of alcohol.

Contrarily, while overall demand has dropped, the demand for high quality wines, which compose a smaller market share, has increased on a global level. Reasons for this rise in demand can be traced to the development of a more mature and sophisticated consumer, as well as to the purported health benefits of wine consumption (Loubser 1999:64). Since the beginning of the 1990s, following the ground-breaking '60 minutes' report illuminating the 'French Paradox,' where it was shown that the French, who consume a vast quantity of red wine, significantly more so than Americans, have a low rate of cardiovascular disease, the United States has seen a growing consumer perception that red wine, in moderate amounts, is healthy. Indeed, between 1991, when the show first aired, and 1995, large retailer's (e.g., supermarkets) sales of red wines burgeoned by 85% (Spawton and Moulton 1997:339). Such an interest in red wine persists today, as the worldwide demand for wine is overwhelmingly for red. In Japan, for instance, the combination of health and fashion benefits of consuming red wine created the country the largest export market for Californian and Bordeaux wines in 1998; indeed, "perhaps the biggest booster [of Japan's interest] has been the publicity about the positive health effects of wine consumption" (The Economist 'The Disappearing Drinker' 16/12/99:para. 8).

A maturing consumer taste for high quality wines further contributes to the increased demand for high quality. Even in France, 50% of the wines sold in 1998, for example, were *appellation controlee*, demarcating higher quality wine (The Economist 'The Disappearing Drinker' 16/12/99:para. 10). Pricing further reveals the demand towards high quality (The Economist 'The Disappearing Drinker' 16/12/99:para. 10):

"In America, sales of wine costing more than \$7 a bottle are growing at 11-15% per year, whereas sales of wine costing less than \$3 are falling. In Australia the market for wines selling at A\$15 (US\$9.50) is growing three times as fast as that for A\$10 wines..."

Indeed, the fastest growing market segment for wines is in the US\$7-14 and US\$5-7 pricing categories, a fact which clearly represents the growing call for quality wines. The following chart reveals the relationship between pricing categories and the characteristics of the wine that falls into the demarcated categories.

Table 4.4: Price/Quality Relationships and Consumers

Price and Consumer Charac- Teristic	>US\$50 <i>Connoisseur</i>	US\$14-50 <i>Wine lover</i>	US\$7-14 <i>Experimenting consumer</i>	US\$5-7 <i>Experimenting Consumer</i>	<US\$5 <i>Price-focussed Consumer</i>
Wine segment	Icon	Ultra Premium	Super Premium	Premium	Basic
Purchase decision based on retail	Image, style, winery, boutiques, food service	Quality, image, specialty shop, food service	Brand, quality better, supermarket, specialty shop	Price, brand, supermarket	Price, supermarket, discounter
Market trend (size) and competition	Little growth, limited, 'closed' segment	Little growth, gradually increasing	Growing increasing, based on brand, quality; price ration	Growing, fierce, based on brand, price	Decreasing, based on price
Availability	scarce	Scarce	Sufficient year round	Large quantities year round	surplus

Source: [Loubser 1999:67 (*Rabobank: The Business of Wine 1999*)]

Table 4.5. World Wine Consumption by Country (per 1 000 hectolitres) (Ranked In Order of Litres Per Capita Consumption in 1997)

Rank	Country	1970	1980	1995	1996	1997	% Change		
							1970-97	1980-97	1996-97
1	Portugal	72.5	68.7	58.4	60.6	61.0	-15.9	-11.2	0.7
2	France	109.1	91.0	63.0	60.0	60.0	-45.0	-34.1	0
3	Italy	113.7	92.9	57.6	54.3	53.5	-52.9	-42.4	-1.5
4	Luxembourg	37.0	48.2	58.2	55.0	52.0	40.5	7.9	-5.5
5	Switzerland	41.9	47.4	43.6	43.3	43.5	3.8	-8.2	0.5
6	Argentina	91.8	76.3	42.3	42.3	40.0	-56.4	-47.6	-5.4
7	Greece	40.0	44.9	34.5	34.0	34.9	-12.8	-22.3	2.6
8	Spain	61.5	64.7	30.6	30.3	34.8	-43.4	-46.2	14.9
9	Uruguay	26.0	23.7	30.8	32.0	34.0	30.8	43.5	6.3
10	Austria	34.6	35.8	32.0	31.5	30.0	-13.3	-16.2	-4.8
11	Denmark	5.9	14.0	27.6	28.3	29.3	396.1	109.4	3.5
12	Hungary	37.7	34.8	26.6	30.3	29.0	-23.1	-16.7	-4.3
13	Belgium	14.2	20.6	25.0	25.0	25.0	76.1	21.4	0
14	Romania	23.1	28.9	25.3	26.0	23.5	1.7	-18.7	-9.6
15	Germany	16.0	25.5	22.2	22.8	23.0	43.8	-9.8	0.9
16	Bulgaria	20.9	22.0	21.8	21.7	21.6	3.3	-1.8	-0.5
17	Australia	8.7	18.2	18.4	18.2	18.4	111.5	1.1	1.1
18	Netherlands	5.2	12.9	16.6	17.1	17.5	239.8	36.2	2.3
19	New Zealand	5.6	13.3	16.6	16.2	17.0	188.3	21.8	-2.4
20	Czech Republic	14.6	15.5	16.9	16.9	16.9	15.8	9.0	0

Source: [Loubser 1999:61 (*World Drink Trends 1998*)]

Table 4.6. Wine Consumption in Emerging Countries (East Asia) (Million Litres)

Country Year	China	Hong Kong	Japan	Singapore	Taiwan	Thailand	South Korea
1993	169.5	4.0	80.0	4.4	11.8	2.0	3.2
1994	178.1	4.5	87.8	5.5	12.6	2.2	4.4
1995	191.0	5.2	110.7	6.1	13.1	4.3	5.5
1996	204.2	6.0	136.9	6.5	13.8	5.1	5.8
1997	225.5	10.6	168.9	7.1	15.3	5.9	6.0
Avg. Annual Growth	7.4	27.6	20.5	12.7	6.7	31.1	17.0

Source: [Loubser 1999:64 (*Datamonitor Drinks Database 1998*)]

4.4. Marketing Challenges

In this new era of ‘tradition-turned-business’ in the wine industry, the ability to market wine, and do so successfully, is of key concern. In fact, many players in the industry see marketing as the fundamental component of success in the wine industry (Loubser 1999:42). A highly competitive, oversupplied industry, wherein wine producers fight for market share and shelf space, and the pressure of consumer demand towards high quality and varietal labeling, have resulted in the need for stronger marketing strategies.

Brand-building is a crucial element for marketing success in a highly antagonistic marketplace. The adoption of brands has many benefits, for producers, retailers, and consumers alike (The Economist ‘The Brand’s the Thing’ 16/12/99:para: 18):

“A proper brand can offer consumers of wine the same benefits it gives consumers in other areas—a starting point for beginners, consistency, reliability, and some sort of guarantee that they will get what they are paying for... Brands also offer psychological props that marketing professionals can put to good use...In addition, for companies, creating a branded wine has other obvious attractions: the prospect of creating customer loyalty, and hence higher sales volumes and profit margins.”

Fundamentally, as volumes of wine increase and the surplus of wine begins to drive price down, the need for strong brand imaging is imperative for an industry which has made too little use of marketing and brand building. In face of the upcoming, worsened oversupply, “many vintners are wishing they had paid a bit more attention- and invested more money- in serious branding efforts during the flush times” (Allan 01/05/00:46).

Successful branding requires a “focus on the premium and super-premium sectors, clear labeling, constant quality, availability, recognition, and image” (Loubser 1999:105). In addition, factors like a country’s image serve to influence a brand’s imaging. Indeed (The Economist ‘The Brand’s the Thing’ 16/12/99:paras. 3, 4):

“Different countries appeal to different nationalities....South African wines are doing particularly well in the Netherlands, because of the two countries’ historical links and because the names sound familiar to the Dutch... Italian wines have always sold well in the United States because of the large number of Italian-Americans...

“Conversely, if a country is politically unpopular, its wines can become unsellable. Few products advertise their national origins quite so visibly, and so can easily be procured from another source. During the apartheid era, the wines of South Africa were all but unexportable. The same was true of Chilean wines during the Pinochet regime. And when the French staged nuclear tests in the Pacific, they found their wine sales plummeting in eco-conscious Scandinavia.”

Table 4.7. Top 20 Wine Importing Countries in the World by Value (US \$ 1 000)
(Ranked by 1997 Value)

Year Country	1967	1977	1987	1995	1996	1997	% Change		
							1967- 1997	1987- 1997	1995- 1997
UK	89 299	306 975	1 185 671	1 697 965	2 025 305	2 409 473	2 598.2	103.2	41.9
USA	70 175	358 548	1 048 238	1 253 987	1 532 405	1 827 887	2 504.8	74.4	45.8
Germany	104 204	478 522	1 167 552	1 435 203	1 820 865	1 752 911	1 582.2	50.1	22.1
Japan	670	27 347	135 793	468 843	507 232	646 449	-	376.1	37.9
Switzerland	39 584	132 057	389 368	570 178	601 771	582 549	1 371.7	49.6	2.2
France	86 128	243 061	270 729	500 049	496 741	495 437	475.2	83.0	-0.9
Netherlands	17 255	145 808	367 543	466 041	549 938	478 986	2 675.9	30.3	2.8
Canada	13 056	108 797	206 346	324 214	376 829	409 832	3 039.0	98.6	26.4
Denmark	8 066	53 465	162 060	303 469	352 406	380 604	4 618.6	134.9	25.4
Russian Fed	0	0	0	515 230	345 932	358 000	-	-	-30.5
Sweden	11 595	48 131	112 537	173 118	266 456	229 553	1 879.8	104.0	32.6
China	19	0	981	22 283	43 737	208 112	-	-	834.0
Italy	10 791	47 229	132 376	136 451	153 117	158 906	1 372.6	20.0	16.5
Hong Kong	884	4 517	23 454	38 043	68 353	137 956	-	488.2	262.6
Singapore	625	3 104	9 952	62 380	70 206	103 845	-	943.5	66.5
Norway	2 272	10 844	37 428	76 254	98 071	102 820	4 425.5	174.7	34.8
Ireland	3 220	12 681	35 097	68 387	89 893	101 895	3 064.4	190.3	49.0
Austria	7 113	13 033	38 688	73 650	70 352	94 919	1 234.4	145.3	28.9
Australia	815	13 029	27 287	53 236	48 450	66 296	8 034.5	143.0	24.5
Finland	2 863	6 650	17 192	66 693	60 554	64 619	2 157.0	275.9	-3.1

Source: [Loubser 1999:38 (FAO)]

4.4.1. Supermarkets and Changing Marketing Strategies

Fundamentally, it is important to consider to distribution chain for wine, as variations and changes therein have *caused* many changes in the marketing of wine, including the push towards branded products. Notably, the distribution chain for wine has become more tightly integrated and consolidated throughout Europe and America. Such shifts towards a greater consolidation of retail have resulted in a more competitive environment for the

marketing of wine, and calls for increased product differentiation, hence, branding. There are five major distribution channels for wine, including: supermarkets and hypermarkets, the foodservice industry (hotels, caterers, and restaurants), specialty shops, wineries and mail order (Loubser 1999:111). In addition, the increasing prevalence of internet or 'business to consumer' (B2C) sales are rising rapidly. Since early 1999, "more than US\$200 million in private capital has been dedicated to the business to consumer online wine market" (Swartzberg 2000:1). As the internet becomes a more accessible tool in American shopping, the direct sale of wine is expected to increase. In fact, the marketing research company Salomon Smith Barney has estimated that by 2005, online sales of wine will total US\$1.4-\$2.9 billion, or five to ten percent of all retail sales (Swartzberg 2000:2).

However, the most prevalent distributor of wine is the supermarket. Importantly, "as licensing requirements and market needs [have] shifted over time, supermarkets have become more dominant in the distribution of wine" (Loubser 1999:111). The role of supermarkets in selling wine has greatly increased: "In America, 45% of wine is now sold in supermarkets rather than in specialist stores, up from 25% from 1987. In the Netherlands and Britain, the supermarkets now have over 60% of the world wine market" (The Economist 'The Brand's the Thing' 16/12/99:para. 28).

"The switch to supermarket buying helps branded wines. Alone in front of a crowded shelf, shoppers are likely to gravitate to a wine brand which they have heard of. The supermarkets themselves also like branded wines, which make for high-volume sales. Of course they want to have a few distinctive offerings to give their shops individuality and character, but what they really need is suppliers who can provide large volumes to go into stores right across a country. That is an argument for branded wines supplied by big companies" (The Economist 'The Brand's the Thing' 16/12/99:para. 27).

Furthermore, supermarkets have the following advantages with regards to the sale of wine: (the following cited from Loubser 1999:113).

- "They provide one-stop shopping for consumers with respect to food and drink, and increasingly also financial services (i.e. banking).

- They play an important role in educating the consumer via promotions, displays, and general store communication.
- They provide alternative choice through a large variety of brands on offer...Supermarkets often sell their own brands. This may not be an advantage to suppliers, but certainly to supermarkets.
- Supermarkets are able to promote their own private labels, linking [them] to their own name and image. This provides reassurance for confused or new consumers, as well as comfort in choice, especially where the store concerned has a good name and reputation.
- Supermarkets provide a clear definition of price vs. quality.
- Supermarkets dominate the sales of basic and premium segments of the wine industry. The premium segment is expected to have the most substantial growth of all categories.
- Supermarkets' strongest power is their ability to influence the purchasing behavior of consumers. In addition, they [wield] enormous power to manipulate prices, variety, and even wine making practices."

For many wine producers, the rise of the supermarket's power in the distribution of wine has aroused concern. Producers fear that with the upcoming over-supply of wine expected in the next few years, along with rising costs, that supermarkets will undercut producers by selling their own-brand labeled wine. Although producers hope that "they have built up sufficient brand loyalty to fend off cut-price competition from supermarket labels, ...they cannot be sure" (The Economist 'Glug, glug, glut' 16/12/99:para. 14). Tellingly, when "asked what sells best at Sainsbury's, a big British supermarket, the company's chief wine buyer, Alan Webb, replies: 'Basically, whatever we have on special offer. That may not mean the cheapest wine in the shop, but the one that seems to provide the best value for money in its particular price bracket'" (The Economist 'Glug, glug, glut' 16/12/99:para. 14).

Table 4.8. Distribution of Commercial Wine Sales in 1996

Channel Country	Foodservice	Supermarkets	Specialists	Other
France	28%	38.2%	19.4%	14.4%
Italy	14%	34.4%	7.7%	43.9%
Spain	57%	32.7%	6.9%	4.3%
Germany	20%	43.2%	6.5%	30.3%
Greece	30%	35.7%	20.3%	14.0%
Portugal	10%	81.0%	4.5%	6.3%
Argentina	15%	10.2%	1.7%	74.8%
Australia	57%	15.1%	19.4%	8.6%
Chile	45%	26.4%	14.3%	14.3%
South Africa	34%	27.7%	33.7%	4.0%
USA	22%	40.6%	23.4%	16.4%
Austria	26%	40.7%	3.7%	29.6%
Belgium	44%	39.2%	7.3%	9.5%
Netherlands	12%	62.0%	21.0%	5.0%
Canada	24%	4.6%	65.4%	6.1%
Japan	61%	6.8%	16.8%	15.4%
Switzerland	37%	44.1%	8.8%	10.1%
UK	20%	59.2%	18.4%	2.4%

Source: [Loubser 1999:112 (*Rabobank: The World Wine Business 1999*)]

4.5. The Regulatory Environment

Perhaps most fundamentally, the regulatory and policy environment that controls the production and sale of wine will have the greatest impact on the viability of the wine industry. As alcohol has come under attack in Europe and the United States, with governments on both sides of the Atlantic planning to dramatically curb alcohol use in the coming years through heavy taxation and public-health campaigns, many wine producers feel that stricter legislation is imminent. Furthermore, increasing environmental concerns will undoubtedly govern the future of this industry, as food

safety and quality control management standards continue to rise throughout the post-industrialised world. At base, the regulatory environment, closely linked to consumer behavior, will determine the future course of the world wine industry: “policies directly affect [wine] industry strategies of new product development, product differentiation, market expansion, product promotion, and attracting young consumers, and indirectly, through their effect on costs, they affect consumer behavior and international trade rules” (Spawton and Moulton 1997:334).

Figure 4.1. How Different Areas of Policy Affect a Vertically Integrated Wine Industry

The Vertically Integrated Wine Industry		
Agriculture/Environment Policy	Vineyard Locations Grape varieties Harvest	<i>Grape Growing:</i> Source, location, type and quantity of material used in the production of individual wines; use of fungicides, herbicides, and pesticides on the vineyard, and residuals left in the wine; grapevine yields and grape utilization
Pure Food Health and Environment Policy	Crushing Fermentation Pressing Clarification Storage	<i>Winemaking:</i> Clean and pure food legislation, covering both production and packaging; the use of additives, both natural (e.g., sugar) and chemical (e.g., sulfides); alcohol level used as means of product discrimination, excise and taxation levy
Distribution Taxation and Promotion Policy	Bottling and Packaging Wholesale and retail distribution On/Off Premise Consumption	<i>Wine Marketing:</i> Curtailment and control of media advertising...;government controlled distribution (vs. commercial) as in Canada and Scandinavia; limits on the time of day or period of time when wine can be sold; pricing decisions based partly on ‘sin tax’ to pay for alcoholic disease; etc...

(Source: Adapted from two figures by Spawton and Moulton 1997: 328, 334.)

As demonstrated above, government policy has a far-reaching affect on the way the wine industry does business. Invariably, regulations curtail competitiveness and flexibility in adapting to market demand; nowhere is this as prevalent as in Europe, where strict wine

of origin or *appellation* regulations based on region characterise the production of wine. While other countries, notably Canada, Chile, New Zealand, and the United States, have similar wine of origin rules, it appears that the strictest regulations exist in traditional wine producing countries. And although some European policies are “protective and result from industry requests, others are unpopular...because they raise costs or limit decision making” (Spawton and Moulton 1997:333). Such strict guidelines regarding production are difficult to change yet likely to be challenged over time (Spawton and Moulton 1997:333). In addition to wine of origin regulation, government has targeted alcohol as a ‘sin’ product, thus, in many countries, this has resulted in a plethora of laws that seek to regulate alcohol production (limits on alcohol level) and consumption (drinking age laws, ‘sin’ tax, excise tax, limited distribution licenses, limits on location of consumption, controlling advertising) (Spawton and Moulton 1997:334). Furthermore, in the United States, strict guidelines govern the shipping of alcohol from state to state. Environmental legislation, which, as mentioned above, governs a wide array of grape-growing elements, from the vineyard to packaging, is expected to grow as food safety and other environmental concerns increase, including recent fears over genetically modified grape cultivation. Interestingly, several producers fear that the introduction of further of environmental standards and legislation could have a dramatic effect on New world exporters to Europe, where environmental concerns could serve as a pretext for protectionism (The Economist ‘Glug, glug, glut’ 16/12/99:para. 22):

“Many Australian wine makers also believe that the EU many soon start to fight dirty to thwart their export success. The moment we breach 20% of the UK market, says one Australian producer, the Europeans are going to make sure they find something in our wine. This may seem paranoid, but a look at recent trade disputes suggests that wine could be an excellent candidate for a stand-up fight. Food and agricultural produce seem to be a red rag to protectionist bulls, as seen in recent rows about hormones in American beef, genetically modified soybeans and bananas from the Windward Islands. Banning imports to protect domestic farmers would be politically difficult, but barring them on grounds of food safety or purity, or to protect the environment, might seem less unreasonable.”

Finally, the wine trade will be continually subject to international rules and agreements, most notably the Common Agricultural Policy of the European Union, “which controls supply through market intervention...[as well as] bilateral US-EU wine accords that set standards and trade conditions; and agreements under the World Trade Organisation that regulate and liberalize and attempt to guide property rights’ disputes” (Spawton and Moulton 1997:333-334). Examples of WTO agreements which will affect the wine industry include: Trade and Related Intellectual Property Rights (TRIPS), Sanitary and Phytosanitary measures (SPS), Technical Barriers to Trade (TBT), amongst other multilateral and bilateral agreements (Vink 1999:40).

4.6. Conclusion

In sum, the world wine business has changed from a production to a demand-driven business, fuelled by changing consumer preferences spurred by sociological/demographic trends. Currently, the demand for high quality, red wines is increasing, occupying the forefront of wine demand and reflecting an augmenting value of sales. As many producers struggle to effectively tap into this demand, it appears that a hitherto unknown global oversupply of wine could be imminent. Recent replantings of high quality varieties across the globe are expected to hit the market within the next four years; such a sweep implies that prices will decrease and producers will come under greater financial pressure as the competition for shelf space intensifies. Furthermore, as retail distribution of wine becomes more consolidated, it appears that this competition will become more fierce. The importance of marketing is paramount in determining the future success of wine producers; indeed, brand differentiation combined with consistent, high quality can ensure the market share of a wine. It is expected that the main deterrent to the growth of the wine industry is government legislation, which has increasingly targeted alcohol as a commodity to be strictly regulated, and has a far-reaching effect on consumer behavior. Furthermore, increased legislation of environmental quality and food safety will affect the international wine industry.

CHAPTER V

The South African Wine Industry

“The Western Cape farmer is in the midst of a total rearrangement of agriculture and must come to terms with a new dispensation regarding his role as a producer in the international market...” –Lourens Jonker, Chairman: KWV (transcribed speech to VinPro 5/00)

5.1. Introduction

In light of the preceding chapter on the international market for wine, it is necessary to place the South African wine industry within this framework in order to more fully understand the industry's current competitive position. Through illustrating the economic and social situation of the wine industry, its faults, problems, and strengths become apparent in view of an increasingly competitive global market. Therefore, this chapter aims to highlight the key agendas facing the wine industry, which directly affect its ability to gain and maintain market share of the international wine business.

5.2. History and Modern Agenda

The history of South Africa's wine industry stretches well into the 17th century, when Dutch settlers first cultivated grapes on South African soil. Wine production became a formal industry in the 19th century, as the wine from South Africa filtered into European markets. Under the British government, Cape agriculture, notably wine production, was encouraged by financial incentives. Lord Charles, governor of the Cape during the early part of the 1800s, “offered rewards to progressive and inventive farmers; established experimental farms; imported the newest kind of agricultural machinery which he tested to establish its suitability in local conditions; and introduced new legislation to improve South African wines” (Tamarkin 1996:24).

“The number of vines planted increased from 15 million in 1808-1810 to 32 million in 1823-25, and wine production increased by 83% over this period. Between 1810 and 1820 wine was the most important export commodity from the Cape, being responsible for some 90% of total

exports from the colony...Britain became the largest market for the local wine industry.” (Ewert et al 1998:4).

However, much of this export was due to a series of preferential tariffs “which boosted the export of inferior Cape Wines to Britain;” and with the gradual withdrawal of these tariffs “[beginning] in 1825 and [culminating] in the Cobden Treaty in 1860” the Cape witnessed a sharp decline in wine production” (Tamarkin 1996:17). Therefore, “wine production...did not provide [the young] economy with the key to sustained economic growth and prosperity” (Tamarkin 1996:17). This began a series of “boom and bust” cycles, which challenged the wine industry throughout the 19th and 20th century, caused by oversupply of low quality wine, protectionism, and poor market signals. Periods of “boom and bust” inspired the creation of the *Kooperatieve Wijnbouwers Vereniging*, or the KWV, the large cooperative that regulated the wine industry for approximately 80 years, from 1917 to 1997. The KWV, which controlled the production and marketing of the vast majority of the South African wine by using statutory measures, was officially deregulated in 1997, and changed its status from a cooperative to a company.

Overall, the most important development in the history of the wine industry has been its recent re-entrance into the global economy, as apartheid was abolished and trade sanctions were withdrawn in the early 1990s. The growth of the wine industry increased dramatically during the past decade; in effect, state revenue from the industry tripled, from R553.2 million in 1990 to R1,662.4 billion in 1999 (SAWIS 2000:26). The free market has provided a challenge to accepted, traditional business practices in the South African wine industry, and altered the shape of both production and marketing strategies. Yet several years following this re-entrance into the global market for wine, the industry still lags in adequately integrating into the market and capitalising on its potential as a world-class wine producing country. At base, the South African wine industry must fully adapt to its new economic environment, by carrying out steps that will ensure its competitiveness in the global market. While the following analysis will be a generic one and applied to the entire industry, rather than focussing on individual firms, it is implicit that, in order to achieve increased growth and competitiveness, the industry adopt a

cohesive and united front to the challenges which will contribute to its survival in the marketplace (Bekker et al 2000:4-5). It can therefore be said that the major issues affecting the competitiveness of the industry are: the production of high quality wine, the sustainable management of natural resources (i.e. labour and the environment), and increased investment in marketing strategies – all of which are complementary, overlapping, and thus not mutually exclusive.

5.3. The Quality Problem

5.3.1. Production Facts

South Africa is currently the 7th largest producer of wine in the world, behind (in ranking order) France, Italy, Spain, USA, and Argentina; in total, South Africa contributes 3.3% to world wine production (see table 4.1). The industry produces approximately 65% “good” wine (i.e., drinkable wine), 5% rebate wine (for brandy production), 18% distilling wine (i.e., for wine spirit production), and 12% grape juice concentrate. Notably, a substantial 85% of all good wine is white wine, and only 16.3% is red (SAWIS 2000:11). Accordingly, the major cultivars grown in South Africa are mostly white varieties, which compose 73.9% of total area planted (SAWIS 2000:9). Examples of major cultivars are Colombard, Chenin Blanc, Sultana, Sauvignon Blanc, Chardonnay, Semillon and Hanepoot amongst others; while the majority of red cultivars, which compose 26.1% of area planted, are Cabernet Sauvignon, Pinotage, Cinsaut, Merlot, and Shiraz (SAWIS 2000:9). The main wine growing regions of South Africa are Paarl, Worcester, Stellenbosch, Orange River, Malmesbury, Robertson, Olifants River, and the Klein-Karoo. Today, the wine producing industry is now composed of 69 cooperatives, 92 private estate cellars, 168 private non-estate cellars, and 8 producing wholesalers (see figure 5.1).

Figure 5.1. Current Wine Industry Structure

Number of Primary Wine Producers= <u>4 515</u>	Per Production Category	
	Tons	Number of Producers
	1- 100	2 247
	> 100 – 500	1 557
	> 500 – 1000	462
	> 1000 – 5000	246
	> 5000 – 10000	3
Number of Wine Cellars Which Crush Grapes= <u>337</u>	69 Co-operatives 92 Private Cellars- Estates 168 Private Cellars- Non-Estates _____ 8 Producing Wholesalers 337 total	
Number of Bulk Wine Buyers= <u>65</u>	53 Wholesalers (Including producing wholesalers) _ 12 Exporters (Buy wine for export only) 65 total	

(Source: SAWIS 2000:4)

Table 5.1. Geographic Distribution of South African Wine Grape Vineyards Per Wine Region During 1999

Wine Regions	Number of vines	% of total vines	Area hectares	% of total hectares
Worcester	60 976 716	19.53	17 239	16.55
Paarl	54 514 688	17.46	17 155	16.47
Stellenbosch	51 183 826	16.39	15 937	15.30
Orange River	28 841 911	9.24	15 273	14.66
Malmesbury	35 680 095	11.43	14 021	13.46
Robertson	43 487 680	13.93	12 195	11.71
Olifants River	26 952 863	8.63	9 073	8.71
Little Karoo	10 613 698	3.40	3 286	3.15
Total	312 251 477	100.00	104 179	100.00

(Source: SAWIS 2000:6)

5.3.2. Adapting to Demand

While many estate and private cellars in the industry have successfully adapted to market-led demand, which calls for high-quality, or premium, red wine, the South African wine industry as a whole is doing so at a slower than needed pace. The reasons for this lag can be traced to the legacy of the KWV, which rewarded producers for the production of low-quality, white cultivars, which the cooperative used to fuel its brandy and distilling business. Today, such low-quality production continues to be fueled by the cooperative sector, which produces 80% of South African wine. After the KWV's deregulation of quota controls, "the task of managing production was effectively transferred from the KWV to the cooperatives, which continued to limit their members to specific quota volumes...The justification they offered was the need to reconcile production with the processing capacity of the cooperative" (Ewert et al 1998:27). In a 1998 survey, it was revealed that, although the majority of cooperative farmers surveyed indicated that they were aware of the market changes, "few farmers have changed or adjusted their viticultural practices over the past ten years"(Ewert et al 1998:24). Indeed (Ewert et al 1998:35):

"This should be of concern, given that during this time farming has not only become more scientific and precise but also more mechanised. These changes have affected every aspect of viticultural practices and the fact that so few farmers have responded suggests that either they are not open to innovation, or that these innovations are not being filtered through to farmers."

In addition to the fact that the world demand for 'beverage' or low-priced wine is falling - posing a major challenge to South Africa's cooperative sector - fears are that the bottom will fall out for other aspects of low-quality production (i.e. grape juice concentrate and brandy) and the industry will be faced with an agricultural 'bust' scenario, causing potentially dramatic financial damage.

As indicated, the vast majority of cultivars planted on South African soil are high yielding, low quality white varieties. Although the dual processes of uprooting and replanting are taking place at an unprecedented pace according to the South African Wine

Industry Statistics board (SAWIS), and that the production of ‘wine of origin’-certified wine, which is made under strict requirements relating to origin, varietal, and vintage, and certified by the Wine and Spirits Board in Stellenbosch, has increased from 48,631,768 litres in 1993 to 146,315,370 litres in 1999 (SAWIS 2000:14), low quality white wine from South Africa still pervades the market.⁵ Consequently, the overall reputation of South African wine is one of low-priced, inconsistent, bulk wine. Indeed, after the opening of markets “farmers were perhaps too eager to enter the markets after trade sanctions ended...[in addition], hoping to capitalise on the bargain on local demand for brandy made from white wine, many farmers [produced wine that was] less popular (and often less tasty) than those preferred in Europe and America...” (Swarns 21/1/00:A4). While the period after 1994 saw a boom in exports in white wine, the demand-shift towards noble red cultivars and the increasing reputation of inconsistent quality has hurt the industry that finds itself unable to effectively tap into demand. State revenue from the wine industry fell from R1,676.4 billion in 1998 to R1,662.4 billion in 1999 (SAWIS 2000:26). Although exports have increased, it is clear that the wine industry’s poor quality products have driven prices down, thus lowering revenue and placing producers under increased financial strain.

The importance of quality as a prerequisite for the overall growth in sales and exports of South African wine cannot be overstated. Indeed, “in the global marketplace, good quality control, [ensuring the] consistency and dependability of the wine, is a baseline, a foundation for success...” (Long 1999:10). The South African wine industry, especially the cooperative sector, must adopt the mechanisms and infrastructure to encourage farmers to move towards market demand: in this case, towards the cultivation of high quality, red varietals. On top of the move towards the uprooting of old, low quality vines, and the production of varietals like Cabernet Sauvignon, Chardonnay, and Pinotage, the wine industry must regulate aspects of quality production such as: varietal character and integrity, professional packaging, consistency of character, absence of defects (VA, oxidation, off aromas, off colour, etc.) (Long 1999:10). In addition, plant material

⁵ In 1999, 5, 168 ha were uprooted and 5, 589 ha were planted, as opposed to 1998’s 2,870 ha of uprooted vines and 4, 372 ha of replantings. The 1999 levels of uprooting/planting are the highest in recent history (SAWIS 2000: 7).

quality control is essential to quality, as is the use of benchmark vine management techniques, such as water, canopy, pest, and crop load management (Long 1999:10). Another fundamental component of quality production is the investment in natural resources, such as labour and the environment; as will be shown in the following section, natural capital investment both ensures quality as well as contributes to the viability of the industry in the global market.

5.4. Management of Natural Resources

In any industry, the sustainable management of natural resources, or labour and the environment, is fundamental to its long-term viability by reducing costs and increasing productivity.⁶ Nowhere does this statement hold more evident than in agriculture, an industry that works directly with the natural environment, and, for the most part, is highly labour intensive. For the South African wine industry, it can be said that the investment in natural resources can provide a long-term solution for cost-reduction and quality production, which will aid in furthering the competitive position of the industry in the global market for wine. Furthermore, as both government and market forces increasingly target environmental and social aspects of production, it is clear that the South African wine industry must adopt a proactive role in managing its natural resources. For instance, as the South African government increasingly legislates agricultural labour, and as the European and American markets demand higher environmental and social standards of production, the wine industry is forced to consider labour and environmental issues in order to maintain and perhaps expand its market share, as well as to ensure its operation within legal parameters. Therefore, as will be illustrated in the following section, attention to natural resource management is a crucial component of economic viability for South African wine industry in its new economic environment.

⁶ According to theories of environmental quality and profitability, i.e. the Porter Hypothesis, which addresses the effects of environmental regulation on cost-saving benefits, stating that 1) environmental regulation will stimulate innovation which will reduce the cost of compliance; and 2) innovations induced by environmental regulation will generate enough economic benefits to the company to exceed the costs of the regulation (Batie 1997:249). Secondly, general theories of human capital productivity insist that greater human capital investment will lead to greater productivity (and hence cost-savings) [see, for example "Human Capital Investment Effects on Firm Returns" *Journal of Applied Business Research* 12(1):30-41;

5.4.1. Labour

A major generator of Western Cape employment, the wine industry currently employs approximately 348,300 people: 3,300 of which are wine cellar personnel and 345,000 of which are farmworkers (including seasonal labour and dependents)⁷ (SAWIS 2000:3). The wine industry, however, has continued to have an uneconomical or inefficient relationship with its labour force, which is based in the historical and cultural traditions and biases of a largely conservative farming community (du Toit 1993, Ewert and Hamman 1995). In addition, skepticism from international wine consumers over South Africa's sordid human rights history have continued to affect the industry's image (Block 20/1/98:A1). Indeed, the wine industry's maltreatment of labour has been documented and publicised by international media in recent years. Although it is impossible to quantify the economic impact of bad publicity, it can be said without doubt that such an image could potentially be detrimental to the industry's growth, especially as social concerns over the treatment of labour amongst consumers and buyers are rising. Increasing negative publicity over South African wine farmers' treatment of labour could result in boycotting and, at the least, decreased sales. Therefore, the wine industry's relationship with its labour force has resulted in vast social as well as economic problems in the industry, which ultimately have a strong influence on its ability to compete internationally, by reducing the productivity of labour and by tarnishing the image of South African wine.

5.4.1.1. Background

In the South African wine industry, farming has long been a traditional 'lifestyle,' as agricultural land has been passed down from generation to generation. Indeed, most current wine farmers in the industry have inherited their land and subsequently, the family lifestyle of wine-grape farming (Ewert et al 1998:26). Because wine farming has

or "Human Capital Investment: The Returns from Education and Training to the Individual, the Firm, and the Economy." *Fiscal Studies* 20(1):1-230.]

⁷ There are an estimated 50,000 permanent workers in the wine industry.

been a way of life more than a business, wine farmers are reluctant to change and/or alter their production practices. Nowhere is this bias more apparent than in the treatment and organisation of labour on the typical Western Cape wine farm. Although several progressive farmers have attempted to, or at least expressed interest in, modernising their labour relations, the deeply entrenched structure of farmer-worker relations pervades on most farms. Anachronistic labour relations on wine farms perpetuate the legacy of *paternalism*, whereby workers are treated as part of a ‘farm family,’ and possess little or no voice and rights. This relationship between farmworkers and the farm owner has often been cited as the greatest problem in the social situation of farmworkers. As du Toit states (1993:315):

“...To enter the farm – no matter how close it is to the city- is to enter a different world. It is not just that the farm is in many ways a universe unto itself. It is also a universe whose logic is deeply different than that of the town. Farms are not ‘factories in the field.’ Labour relations are not as easily separated from broader social relations as they are in town life. Obligations between worker and farmer extend far beyond the labour-wage nexus.”

5.4.1.2. *Structural changes: from permanent to seasonal labour*

The majority of permanent farmworkers on Western Cape wine farms are of the Afrikaans-speaking, Cape Coloured ethnic group. More than “75% of the permanent workers [have] either grown up on the farm where they [are] employed or [have] worked on other farms in the local region” (Ewert et al 1997:38). With the rise of increased federal legislation regulating farm worker/employer relationships, this tradition of permanent, on-farm employees is falling out of favour with farmers. For example, the Extension of Security of Tenure Act (ESTA), which attempts to secure workers’ housing on farms, has contributed to a hesitation or unwillingness on the part of farmers to hire more permanent labour (Ewert et al 1997:37).⁸ Farmers say that new laws protecting

⁸ Other labour legislation includes: the 1993 Unemployment Insurance Act, which created an unemployment insurance fund to which farmers and employees each contribute an amount equal to one percent of the employee’s wage; the 1993 Basic Conditions of Employment Act, which guarantees many basic worker rights including sick leave, a 48 hour week, and overtime payment; the 1994 Agricultural

farm workers result in increased costs, such as the cost of new housing, and the cost of tenured housing, and discourage permanent hiring. In response, the number of seasonal or casual labour on farms is rising. Many of these seasonal workers are women from local farms or the wives' of farm workers, representing a trend towards the 'feminisation' of the workforce (Ewert et al 1997:38). For the most part, casual labour is sourced locally relative to the farm. In addition, farmers have expressed a keen interest in mechanisation as to avoid labour legislation: however, while approximately 25% of wine farmers are mechanising, it nevertheless remains a less expensive option to hire seasonal workers (Ewert et al 1997:38).

Table 5.2. Number of permanent employees:

Wine Growing Area								
Year	Paarl/Wellington N=28 farms		Robertson N=29 farms		Olifants River N=47 farms		Total N=104 farms	
	N	Mean	N	Mean	N	Mean	N	Mean
1993	548	20	627	22	700	15	1875	18
1997	602	22	646	22	722	15	1970	19
2002* (estimate)	622	22	695	24	715	15	2032	20

(Source: Ewert et al 1998:37)

5.4.1.3. *Human Development and Poverty*

Living conditions for most farm workers remain below average: it is estimated that half of the farm worker households in the wine industry lack the basic amenities (Ewert et al 1998:44). Indeed (Ewert et al 1998:44):

“According to [a] KWV survey, most farm worker families live in brick houses (85%), but with cement floors (85%), and asbestos roofs (56%). Less than half (48%) of farm worker households have tap water inside for drinking, washing, and bathing purposes. Even fewer (45%) are equipped with a flush toilet. Electricity for cooking is available in only 40% of the households.

Labour Relations Act, which protects workers from unfair dismissal and upholds bargaining rights (Ewert et al 1998:42). A minimum-wage bill for agricultural workers is currently under negotiation.

Less than half (46%) can heat water with electricity, while only a quarter (24%) have power on tap to heat the home...”

Table 5.3. Amenities available to farmworker households in selected KWV areas

Wine Growing Area			
Type of Amenity	Paarl-Wellington	Robertson	Olifants River
	% of household	% of household	% of households
Tap water inside	60,75	62,92	39,68
Flush toilet inside	58,12	50,71	49,53
Electricity (heating water)	43,44	70,26	26,25
Electricity (heating home)	31,08	38,59	12,59
Electricity (cooking)	46,20	64,57	18,03
Electricity (lighting)	78,14	76,09	52,51

[Source: Ewert et al 1997:44 (*Unpublished KWV survey*)]

Furthermore, health problems on wine farms are rampant: “Many farm workers still suffer from chronic illnesses like high blood pressure (27%), fever (19%), diarrhea (13%), and tuberculosis (a staggering 13%)” (Ewert et al 1998:44). Furthermore, the rise of AIDS on wine farms has been substantial, resulting in a major health problem. However, perhaps the most difficult disease for farmworkers and the most omnipresent is alcoholism. The legacy of the *dop* system, which paid alcohol to workers to keep them literally addicted to their jobs, has left an indelible legacy in the industry.⁹ The University of Cape Town’s Foundation for Alcohol Related Research has found that, in the Wellington area, the rates of fetal alcohol syndrome “may be the highest in the world” (Daley 9/7/99:A8). Indeed, the study showed that 11% of farm worker children at standard three level had the disease (Daley 9/7/99:A8). Although the wine industry has seen the rise of several media-grabbing efforts to improve farm worker’s conditions through worker/owner joint venture schemes, as carried out by a handful of wineries in the region, these attempts at ‘empowerment’ remain the exception rather than the rule.¹⁰

⁹ *Dop* is the Afrikaans word for tot.

¹⁰ Such schemes include: the ‘New Beginnings’ label of Nelson’s Creek, the ‘Fair Valley’ label of Fair view, the Papkuilsfontein project (Tukulu label) of Distell (SFW), the Thandi project of Paul Cluver wines, the ‘Winds of Change’ label from Sonop/Savisa, amongst others. Typically, such joint-venture projects involve a land-redistribution scheme, where land is given to farm workers on which to farm their own grapes to sell to the winery; or such schemes give workers shares in the company.

5.4.1.4. *Human Capital Productivity*

As the oppression and abuse of farm labour has created vast social problems, it has concomitantly resulted in economic losses for the wine industry, where, on the average farm, labour accounts for 40% of production costs. In addition, the productivity of the average South African wine farm worker is low. Although little formal academic research has been carried out on the subject, it is estimated that “in Australia one employee works as much as 8 hectares, whereas in South Africa one worker only manages 3.5-4 ha...[in addition], whereas a South African worker harvests between .75 and 1.0 ton of grapes per day, his/her counterpart in California is said to achieve twice as much” (Ewert et al 1998: 40). Such a fact reveals the inefficient structure of labour on South Africa’s wine farms, which can be traced to wine farmers’ conservative ideology and reluctance to move towards more economic methods of production. In a more competitive marketplace, it is key that workers become more efficient and better-trained to perform more highly technical tasks, from the vineyard to the cellar. As a result, a handful of export-orientated farmers have expressed interest in the development of training centers and educational resource organisations within the wine industry, outside of the currently operating schemes of Elsenburg Agricultural College, for example, which offers training programmes and certification to workers.¹¹ It appears that a small but growing number of farmers have expressed a desire to educate their workers to better understand the concept of quality wine production; in order to produce high quality wine, it is of importance that the farm produces excellent quality fruit, which implies attention to soil and growing conditions as well as the delicate and knowledgeable management of vines. In a competitive market environment focussed on quality, it is essential that wine is not treated as a commodity. Increased labour training ensures that quality will be maintained.

Although training plays a role in augmenting productivity as well as bettering the social and economic situation of farm workers, perhaps more fundamental are the roles of

¹¹ Innus Miller, Stellenbosch Vineyards, 24.1.01. Personal communication; and Graham Knox, Siyabonga wines, 29.1.01. Personal communication.

education and health care. Farmer's skepticism towards training, combined with "poor living conditions...low literacy, and the workers' associated lack of self-esteem particularly in public situations... militate against training and productivity" (Ewert et al 1998:41). For many farmers, the investment in farm workers requires a shift in mentality and the adoption of a more cost-efficient, long-term, and sustainable economic paradigm. It is increasingly imperative that farmers abandon conservative doctrines and anachronistic labour practices and move towards this new paradigm, which is based on the concept that the investment in human capital productivity is an essential component of the wine industry's ability to succeed in a competitive, highly scrutinised global marketplace.

5.4.2. The Environment

Because of the destructive effects of monoculture on ecosystems and the environmentally intensive nature of commercial agriculture, environmental sustainability should be of key concern in shaping the objectives of the South African wine industry. In addition, rising environmental standards in the wine industry's key export markets require that the industry provide certain environmental and food safety guarantees to buyers in order to remain in the market and ensure competitiveness. As these environmental standards become an 'ethical floor,' whether created by legislation (HACCPP) or industry-wide, private regulation (EUREPGAP), it is clear that this knowledge, or fear of rising standards, should spur the wine industry into "searching for cost saving or quality improving innovations" (Batie 1997:249). Roberts et al (1997:174) argue that:

"Now more than ever....companies must now develop quality assurance programs that respond to country or trading group standards; qualify them for desired private certifications...(e.g. ISO 9,000); and still remain economically competitive. In turn, this means involved countries must develop internal cost effective and regulatory structures capable of assuring accountability for the quality of food products they use and produce."

Thus, following a world agricultural trend towards Integrated Production (IP) management, the South African wine industry has initiated its own system of

environmental regulation, called the 'South African System of Integrated Production of Wine' (IPW), which is largely based on the Hazard and Critical Control Points (HACCP) food safety principles as well as the ISO 14,000 standards for environmental management. Catalysed by concerns over the environment from the Wine and Spirit Board of the wine industry, combined with support from the industry's large wholesalers (SFW, Distillers, KWV), the IPW scheme, although voluntary, was officially written into law in 1998. The objective of the IPW is to ensure that South African wines are produced with very little interference in the natural environment. Since its inception in 1998, more than 96% of the industry's producers have adopted the IPW guidelines; including 90 out of 95 estates, 151 out of 169 private cellars, and all 69 cooperatives, seven wholesalers, and four bottling companies (IPW 2000:2). These producers represent 99,7% of all grapes produced in South Africa, and 96% of all cellars (IPW 2000:2). Joining the IPW scheme requires a payment from the producer, which is used to fund the programme.¹² Says Andries Tromp, manager of the programme, "it was easy to get people to join...We told producers, to be able to sell overseas, you will have to do this...In addition, we told them that cuts on fertilizer and pesticide use will decrease production costs and save money..."¹³ Mr. Tromp personally conducted more than 1,000 one-hour speeches to producers on the IPW in order to gain support, by visiting more than 300 cellars approximately three times each. A self-regulating system, producers score themselves on a point system regarding technical aspects of production from the vineyard to cellar. However, intermittent auditing is carried out by Infruitec and Nietvoorbij Centres, whereby three cellars and six farms are audited on a 'spot check' basis in each of the six wine-growing regions.¹⁴

In contrast to labour management, environmental concerns have had a profound and widespread impact on the wine industry. While labour remains a complicated social issue, rooted in cultural and historical factors, environmental management is the more

¹² Each farmer must pay R85/year; and differentiated fees on a per tonnage basis for cellars make up the rest of the required funds with small cellars (under 100 tons) paying R85 and large cellars (above 25,000 tons) paying R10,000 (IPW:2000).

¹³ Personal communication 8.2.01.

¹⁴ Infruitec and Nietvoorbij Centres are agricultural research institutes that provide technical support to the IPW scheme.

easily accessible and perhaps manageable component of these two natural resources. Furthermore, the success of the IPW scheme can be traced to the well-articulated market demand for food safety standards and environmental quality control. The loss to an industry because of negative food safety incidents, for instance, can be disastrous, in the short and long terms (Roberts et al:1997). Furthermore, as indicated, more and more distributors are requiring suppliers to be accredited with an environmental safety certificate, resulting in a 'weeding out' of non-compliant producers. In light of these market trends, it makes sense that the IPW is marketed to farmers as "a threshold to market access;" furthermore, because of the unique vineyard to cellar, or all-inclusive, approach of the IPW, the wine industry hopes that "this will imply that we will retain and even expand our market segment in the local as well as the overseas market" (IPW 2000:5,3). In a personal interview with Andries Tromp, he noted that the IPW is fundamentally a mechanism to enable wine producers to "stay in the market." He added that the wine industry is becoming increasingly focussed on international competition, and that the supermarkets and consumers in Europe, for instance, are "adamant" about environmental standards, implying that there is a need to be able to provide an environmental guarantee to buyers and consumers, along the lines of the EUREPGAP system, HACCP, or the ISO 14,000. In addition, Mr. Tromp emphasised the danger of an agricultural industry not possessing agricultural guarantees or regulatory standards, citing the fear that, "if any harmful substance is found in our wine, we are out of the market." For instance, as noted in an IPW published document (IPW 2000:2):

"The modern consumer has sophisticated needs...This has had the effect that they are requiring guarantees from wine producers as to the constitution of wine and its safety for consumption while being adamant that the environment should be left as pristine and as undamaged as possible. Our system, which is specifically aimed at sustainable agriculture and which is thus viable over the long term, is adjusted in such a manner that these two consumer requirements are met."

5.5. Marketing Challenges

Since the early 1990's, the South African wine industry has experienced unprecedented economic growth and witnessed the dramatic expansion of markets. As economic sanctions were withdrawn from South Africa, the industry experienced a boom in exports (see table 5.4). Major markets for South African wine are (in ranking order): the United Kingdom, the Netherlands, Scandinavia, Germany, the Far East, Canada and Belgium (see table 5.5).

Table 5.4. Total Quantity of Wine Exported

Year	Natural wine	Fortified wine	Sparkling wine	Total Litres	Trend	Export as % of Good wine crop
1993	23 249 930	772 278	574 749	24 596 957		6.2
1994	48 446 024	1 284 187	961 597	50 691 808	206.1	12.0
1995	71 207 264	793 035	806 708	72 807 007	143.6	14.6
1996	-	-	-	99 900 000*	137.2	17.3
1997	108 489 119	1 265 310	805 064	110 559 493	110.7	20.2
1998	116 766 480	1 116 781	524 687	118 407 948	107.1	21.8
1999	127 687 979	695 710	809 710	129 193 314	109.1	21.7

Source: (SAWIS 2000:20)

Table 5.5. Major Importing Countries of South African Wine: Bottled and Bulk Natural Wine Exports Per Country- Litres.

Countries/ Country Groups	1998			1999			Trend 99/98		
	white	Red/ Rose	Total	white	Red/ rose	Total	White	Red/ rose	Total
United Kingdom	27,360,985	19,493,000	46,853,985	33,900,705	19,855,081	53,755,786	124	102	115
The Netherlands	5,873,280	9,123,798	14,997,078	8,070,685	11,229,618	19,300,303	137	123	129
Scandinavia	3,614,347	4,463,830	8,078,177	3,997,838	5,830,359	9,828,197	111	131	122
Germany	5,242,056	4,601,415	9,843,471	4,503,694	5,119,369	9,623,090	86	111	98
Far East	3,743,377	2,288,239	6,031,616	4,125,260	1,785,958	5,911,218	110	78	98
Canada	3,156,618	1,254,393	4,411,011	3,680,488	1,379,296	5,059,784	117	110	115
Belgium	2,961,268	3,167,772	6,129,040	3,333,864	4,143,880	7,477,744	113	131	122
USA	886,062	938,066	1,824,128	1,231,371	1,321,524	2,552,895	139	141	140
Africa*	1,473,964	3,464,416	4,938,380	880,739	2,204,589	3,085,328	60	64	62
Switzerland	450,499	2,943,701	3,394,200	3,124,339	2,163,260	5,287,599	694	73	156
Australasia	4,235,855	183,582	4,419,437	254,717	231,440	486,157	6	126	11
Middle East	203,909	1,073,846	1,277,755	191,690	190,200	381,890	94	18	30
Eastern Europe	102,685	167,742	270,427	125,770	118,113	243,883	122	70	90
Austria	178,602	62,157	240,759	49,128	90,619	139,747	28	146	58
Central America	171,646	221,287	392,933	77,913	75,813	153,726	45	34	39
Rest of Western Europe	249,047	129,508	378,555	260,239	175,090	435,329	104	135	115
African Islands	35,793	39,771	75,564	45,168	62,902	108,070	126	158	143
South America	101,276	59,625	160,901	17,244	22,095	39,339	17	37	24
France	1,642,175	1,406,888	3,049,063	2,107,259	1,709,735	3,816,994	128	122	125
Total	61,683,444	55,083,036	116,766,480	69,978,111	57,708,968	127,687,079	113	105	109

Source: (SAWIS 2000:21)

In order to retain and expand market share, it is increasingly important that the South African wine industry invest in strong marketing strategies (Loubser 1999). For many years, the marketing of South African wine was carried out by the KWV; thus, only recently have marketing concerns begun to affect the entire industry. While wine-producing countries, like Australia, have engaged in substantial marketing drives, in South Africa's wine industry marketing has remained, for the most part, an untapped or

unrealised part of the wine business. In this era of increasing rivalry and intense competition, it is fundamental that marketing occupy a greater part of the focus of the industry as a whole as well as the individual wine-producing firm. Strong marketing strategies require a familiarity and knowledge of changing consumer trends, as well as an awareness of changes in the distribution channel (i.e. increasing supermarket retail power and consolidation) and a cognizance of regulatory requirements and market developments.

In light of these trends, it is of key importance that brand-building become a major objective for the South African wine industry, as brands serve to differentiate and identify products in an increasingly fierce marketplace. Another motivation towards brand-building lies in the fact that, as the majority of South African wine continues to be sold in large, highly-competitive supermarkets, well-known or identifiable labels can aid in providing a buffer against price-dumping by supermarkets, in the form of their 'own brand' labeled wine. Furthermore, if government regulation towards alcohol consumption further affects the wine industry, marketing efforts can play a part in allaying consumer fears and/or warding off government regulation. For instance, all wines sold from Australia carry a 'drink wine in moderation' label, which has bolstered the industry's image and perhaps pre-empted it from anti-alcohol legislation. Lastly, increasing consumer skepticism about company labour practices, especially in developing nations, combined with rising environmental standards in many markets, implies that the South African wine industry must find ways to successfully market itself as socially and environmentally responsible. Thus, the wine industry must be prepared to invest in improving its labour practices and promoting social responsibility to consumers and buyers, rather than waiting for negative publicity (or boycotts) to cause irreversible financial damage in the industry. Furthermore, the wine industry must find an appropriate and effective mechanism for marketing its IPW scheme: since the IPW does not issue a label, this requires that the wine industry find proactive ways of communicating its 'green' qualities. Fundamentally, the successful marketing of wine relies upon a 'niche-market' focus. According to Loubser it can be said that the

marketing options of the South African wine industry are as follows (Loubser 'Strategic Marketing Options' 1999:82-83):

- 1) Do nothing and let the industry evolve into whatever it will become one day.
- 2) Chase world market share (the Australian model).
- 3) Follow a niche market focus whereby the industry dedicates itself to a limited number of main products for a limited number of markets
- 4) A multiple niche focus, where specific products are matched with specific markets. This implies a fragmented production base, and even fragmented product marketing base, within the framework of a common focus and generic marketing.
- 5) A multi-focus strategy, with strong emphasis on all three broad segments of the market: basic wines, middle segment wines, and top segment wines.

Loubser suggests that strategy 5 be followed in the short term, while the industry is restructuring to adapt to strategy 4 in the medium to long term.

At base, the wine industry must complement its production strategies with increasing investment in marketing, as the world's wine industries, not only South Africa, begin to realise the importance of this crucial component of business. Like many other wine-producing regions, South Africa's wine industry has remained inward-focussed and traditional. Yet in this new era of increasing competition and 'tradition-turned-business' within the world's wine industries, it is clear a strong investment in marketing strategies, like brand building, will aid significantly in furthering and maintaining the competitiveness of South African wine on the world market.

5.6. Conclusion- The Prevalence of Social and Environmental Responsibility

The South African wine industry has experienced rapid change and development within the past decade. The expanding trade of the industry has implied not only increasing financial rewards, but has placed augmenting strain on traditional methods and practices of conducting business. In other words, under the new free market system, the South African wine industry has been forced to adapt to more sustainable, efficient, and productive methods of both production and marketing. However, on the whole, the wine

industry still lags in fully adjusting to its new economic environment, owing to a cultivated area composed mainly of low quality white grapes, anachronistic labour management strategies, and the lack of strong marketing efforts. Increasing competition from other New World wine producers in an already oversupplied market, combined with a decreasing market for beverage wine and a rapidly expanding market for high-quality, premium wine, mean that the South African industry must adopt the appropriate means and mechanisms to encourage its producers to become and/or remain competitive by:

- Investing in, planting, and maintaining good quality grape production in line with market demand (i.e. red noble varieties); and producing premium wines;
- Encouraging investment in labour productivity and human capital development;
- Continuingly upgrading the environmental quality standards in the IPW;
- Investing in strong marketing strategies, focussing on brand building and niche markets; adapting marketing efforts to accommodate consumer/buyer demands and governmental legislation (i.e. around alcohol consumption, environmental, social standards).

Fundamentally, this chapter aims to have shed light on the international competitiveness of South African wine, based on an outline of the world market for wine, as well as on the previous chapters on business social responsibility and ethical trade. Although not a panacea to the problems of the South African wine industry, it appears that *environmental and social responsibility, or ethical trade, feature greatly in different aspects of maintaining and encouraging the growth of the industry*. In the next chapter, we shall explore individual producers' perceptions and knowledge of ethical trade, which will provide a useful part of the analysis of the opportunities, obstacles, and implications for the wine industry and its ability to incorporate social and environmental value into production and marketing strategies. Finally, an analysis of ethical trade and the wine industry will be carried out in Chapter VII.

CHAPTER VI

Case Studies

Interviews with South African Wine Producers Regarding Ethical Trade

6.1. Introduction.

In order to arrive at an analysis of the opportunities, obstacles, and potential implications of ethical trade in the South African wine industry, it is first necessary to test the ‘climate’ of the S.A. wine industry with regards to ethical trade, and to estimate the *possibility* of and issues around wine producers adopting, monitoring, and marketing socially and environmentally responsible practices.

As a methodology to garner information on the situation of the South African wine industry in its relation to ethical trade, the author compiled eleven case studies of area wine producers. Through an interview with a key player in the winery (i.e. winemaker, owner, marketing director, etc.), a more relevant, albeit limited, perspective on the integration of the South African wine producers and ethical trade was established. The interview focussed on assessing the producer’s knowledge of and opinions toward ethical trade, as well as strategies to integrate ethical production and/or marketing within the context of the business. Ethical trade was defined to interviewees as *any attempt to introduce environmental and/or social added value to the production of a product* and the *marketing* of the product based on these values – therefore, not explicitly linking ethical trade to voluntary private regulation in the form of codes of conduct or labeling initiatives (e.g. private company codes or ISO 14,000, etc.). The interviews thus did not attempt to determine the possibility of producers creating private ethical codes or joining umbrella code of conduct/labeling initiatives, as such a subject appeared too complicated, owing to the proliferation of different initiatives and varying objectives. Rather, as stated, the interviews attempted to obtain the attitudes and knowledge of producers towards ethical trade, or social and environmental responsibility, which, fundamentally, illustrates the

possibility/actuality of these firms adopting voluntary regulatory initiatives as a means to provide accountability to stakeholders.

Preliminary questions centered on the producer's production statistics, and details of distribution. Such questions established, for the interviewer, the production and marketing focus of the winery, and added helpful information as to the potential and/or position of the winery to engage in ethical trade arrangements. For instance, it was necessary to ascertain the 'newness' of the winery, and/or its search to establish a brand image, by asking producers to qualify their image, give price points for their wine, and establish into which quality category their wines fall under (i.e. basic, premium, super premium, etc). It was inferred that 1) premium segment wine producers would be the most receptive to ethical trade and 2) newly established wineries would be more open to the idea of niche market creation through ethical products. In addition, it was essential to ascertain the relative importance of marketing for the winery, as it was presupposed that an emphasis on new marketing strategies would imply that the winery would be more interested in adopting ethical trade.

The second round of questions focussed more on the producer's knowledge of ethical trade, or socially and environmentally responsible products. Examples of questions included:

- How familiar are you with the market for 'green' or 'socially responsible' products?
- How high a priority is environmentally-friendly production for your organization? Are you currently implementing/participating in any 'green' methods of production?
- How high a priority is the human development agenda on your wine farm? Are you currently investing in any efforts to improve labour conditions on your farm?
- Are these attempts part of a development strategy separate from the marketing of your wine, or do you (or plan to) integrate the two? For instance, do you

(or plan to) market yourselves as ‘worker’ or ‘environmentally’ friendly? Why or why not?

- If yes, please explain your motivation.
- (Theoretically), what do you see as the benefits of producing your wine with increased social value, meaning an investment in farmworker development? Put differently, how would your farm benefit from the social investment in farmworkers?
- What do you see as the disincentives to this type of investment?
- (Theoretically), what do you see as the benefits of marketing your wine as “socially responsible,” or at least as a component of overall marketing strategy?
- What do you see as the disincentives to this type of marketing?
- Do you perceive ethical marketing to be profitable, in general?
- (Theoretically), how willing would your organisation be to accommodate a third party auditor to verify certain labour and/or environmental standards on your farm?
- What opportunities/possibilities do you see for your winery and ethically-produced wine? Meaning, do you think that this trend will (or continue to) affect the way your organisation does business?
- What about the opportunities/possibilities for the whole industry and ethically produced wine? Do you think it will happen? What are the obstacles?

Notably, the questionnaire was semi-structured, as was predicted that new topics would arise in conversation with producers. Similarly, it was assumed that some questions would not be appropriate for all producers, and had to be slightly modified in order to fit the specific situation of the winery. The questionnaire did not seek to provide the interviewer with a list of comparable answers from a set block of questions, but to establish a free-flow of information, based around the topic of ethical trade, which would provide a deeper insight into the obstacles, possibilities, and implications for ethical trade in the South African wine industry. Lastly, it is important to note that the case studies *did not aim to be representative of the entire industry*, but rather to target *several key*

players, and to ascertain a personalized and more thorough perspective on ethical trade. While it is recognized that there is usually a trade off between breadth and depth, the author hopes to nevertheless provide a valuable and illuminating perspective on ethical trade from eleven of the industry's producers.

Durbanville Hills

January 17, 2001

Rian Oosthuizen, Assistant Winemaker

The Durbanville Hills winery is a new winery, only in its third year of production. The winery produces approximately 10,000 cases of wine per year. Their wines can be classified into the lower budget premium range, the middle-budget “Rhino” range, and the specialized, icon wines of the “single vineyard” range. Production is expected to increase to 8,000 tons at full capacity. The winery produces the following wines: Cabernet, Merlot, Shiraz, Pinotage, Chardonnay, and Sauvignon Blanc. Currently, production is divided into about 50% red and 50% white, with an anticipated move towards red in the coming years.

The structure of the winery is in fact a joint venture between seven grape-growing farms in the area, owning 45% of shares, and Distillers Corporation, with 50%.¹⁵ The remaining 5% of shares is owned by a farm worker community trust from all of the seven farms. A trust committee has been formed, with two farm workers from each farm represented, including Distillers representatives, and farmers from the seven farms. Currently, the committee is focussing on teaching farm workers about the meaning of share ownership. In addition, a small 4 ha plot of land has been given to the farm workers on which to grow grape vines; once the vines have produced grapes, the farm workers can then sell the grapes to the company. The company aims to loan the farm workers the raw capital to begin this project, yet profits from this venture will probably not be seen for another ten to fifteen years, according to Mr. Oosthuizen. The workers’ trust will not gain dividends from their 5% share until the company makes a profit, which Mr. Oosthuizen predicts will not be until 2015, at least. The exact amount of farm worker families involved in the joint-venture was unavailable, yet an estimate of 15 to 20 farm worker families on each farm was estimated.

¹⁵ Distillers Corporation has recently merged with Stellenbosch Farmer’s Winery. The new name of the company is Distell.

The focus on change and innovation is definitely a part of this new winery's operations: being a new player in the industry, and struggling to catch up with market demand, the winery is eager to break into new markets and be dynamic and responsive to market changes. The move towards red varietals will continue to be a focus of change. However, the interviewee was unable to respond to how or to what extent market strategies will adapt or shift within the next few years. Marketing of Durbanville Hills is carried out by Distillers itself; therefore, as assistant winemaker, Mr. Oosthuizen had little knowledge of marketing strategies. As far as human resource training is concerned, the winery cites industry programs that focus on cellar training, like those of Elsenburg; yet the interviewee could not name specific programs that the winery is conducting to train its cellar or farm staff.

In terms of exports, Durbanville Hills wines sells 50% of its production overseas. Overseas buyers include restaurants and supermarkets in Belgium, the Netherlands, the United Kingdom, the United States, Canada, and the Far East. The marketing segment Durbanville Hills wines fall under is that of super-premium to icon (the "single vineyard" range), meaning that these wines fall into the upper categories of prices. The interviewee added that the Distillers Corporation tells the winery what and how much to produce, based on market signals from distributors. This sheds light on the fact that the winery itself has very little control over what it produces; which would determine whether or not the winery could facilitate a move towards 'ethical' wine.

The second round of questions targeted the trend of ethical trade and the interviewee's familiarity, knowledge of, and opinions on 'socially responsible' wines. The interviewee did not appear very familiar with the trend of ethical trade, yet notably had heard of the Ethical Trade Initiative's pilot project in South Africa. What became obvious was the interviewee's familiarity of environmental standards and regulations with regards to wine production (like the IPW), and his statement that such environmental regulation might constitute the norm in agriculture throughout the world, owing to certain standards and initiatives set out in Europe, especially. Durbanville Hills, however, will not 'go

organic' any time soon, as the practice of organic farming is just "too intensive." Conclusively, environmental safety and responsibility will not play more than a necessary part in the production and marketing of Durbanville Hills wines.

Social responsibility plays a more active role. Efforts to engage farm workers in the company through designating them 5% of shares, continuing attempts to educate and train the workforce, and a donated 4 ha plot of land to the farm workers on which to raise and sell wine grapes for profit, indicate a company interest in empowering and/or developing the human capital potential of their workforce. Mr. Oosthuizen insisted that the ongoing projects are more focused on the production side of things, rather than on marketing. For instance, he states that it would "be wrong" to market this wine as 'worker-friendly' when workers won't see dividends from shares for another 15-20 years. Thus, while marketing the wine as 'worker-friendly' is definitely a possibility in the future, for now worker-empowerment schemes remain as a means to improve training and education, and thus increase productivity. As Mr. Oosthuizen stated, "the [community] trust is the beginning," meaning that the winery expects more projects or increased attention to worker issues to follow.

The approach of Durbanville Hills to its workers appears very businesslike, whereby the owners/managers are seeking to profit from an increased investment in human capital. Mr. Oosthuizen indicated the benefits of investing in workers as a "better educated" workforce, workers as "part of company", workers more "loyal", and as a medium to better labour productivity. He noted that such an investment is very worthwhile and affordability should not be an issue. Aside from production, he feels that the marketing of wine as "socially responsible" (if or if not Durbanville Hills participates in such an endeavor) is a "good message to get across," and "good for the rest of the industry;" however, he stressed the importance of not marketing for 'marketing's sake' socially responsible wine. When approached about the issue of third-party auditing, Mr. Oosthuizen expressed interest and willingness to cooperate with verification of social standards.

Graham Beck Wines

January 19th 2001

Mr. Roux, Marketing Director

Graham Beck Wines is a large operation with two wineries: one located in Robertson, the other in Franschhoek. The winery is fairly new, with the first vintage released in 1993. While the Robertson winery focuses on sparkling wine and Chardonnay, the “Coastal” winery of Franschhoek produces mostly red wines, including Cabernet Sauvignon, Pinotage, Shiraz, and Merlot. Most of the 150,000 case-production of Graham Beck wines is sold internationally: mainly to the United Kingdom and other European countries, followed by the USA and Asia, with the local market receiving a small share. There are four ranges within Graham Beck wines:

- “Entry-level” wines: “Railroad Red” and “Waterside White;” which are sold to large supermarkets in the UK (e.g., Sainsburys, Tesco, etc.). These wines sell for 4,99 pounds and compose the largest volume of production.
- “Varietal” wines: Cabernet Sauvignon, Chardonnay, etc...; which are sold to wine boutiques and restaurants, and sell for about 5,99-7,99 pounds.
- “Single vineyard” wines: which are specialty wines ranging from 9,99 pounds.
- Finally, an “advent project” category that will sell to private customers only, and cost between 20-30 pounds per bottle.

This differentiation in cost-structuring and target markets is unique and implies a high level of market orientation; furthermore, the winery “has been export driven since the beginning,” and credits its prosperity to the ability to be “internationally successful,” according to interviewee Mr. Roux.

Graham Beck wines is one of the participating members of the Ethical Trading Initiative (ETI), so undoubtedly the winery is aware of the demand for ethically-produced goods (in this case, ‘ethical’ denoting socially-responsible only). Being a member of the ETI means complying with a base code of labour standards, in order to protect workers from

exploitation and to further the human development agenda on farms. Mr. Roux stated that Graham Beck has been one of the “models” for other ETI initiatives, according to a high success rate for their project. He furthermore adds that Mr. Beck is “committed to the upliftment of people, and to the righting of wrongs.” Since its inception, Mr. Roux said that the Graham Beck operation had made facilities available for its workforce, such as a crèche and social clubs, and a primary school. Furthermore, there are company buses that take farmworker children to school, and organise sporting teams. There are approximately 55 families on both vineyards.

Mr. Roux insists that Graham Beck wines have long held that social development was part of the business philosophy, and although the ETI has encouraged them to make some changes on the farms, such as increasing the breadth of farmworker representation, he maintains that the winery would have held the same ethical standards with or without membership to the ETI. When asked, Mr. Roux denounced any economic incentive in participating with the ETI, that it is part of the “business philosophy” rather than a marketing strategy. He discourages the “opportunism” that ethical marketing provides to producers. Rather, he states, “investing in the workforce” has its own influence on profit. However, he admits that participation with the ETI allows Graham Beck to “get on the page” with big supermarkets like Tesco and Sainsbury’s; meaning that joining the ETI has given Graham Beck a “strengthened” relationship with those supermarkets and a chance to “negotiate” with them.

Jordan Winery

January 25th 2001

Mr. Gary Jordan, owner and winemaker

Jordan winery, a 146 ha farm in Stellenbosch, has been in operation since 1982. The farm produces mainly Chardonnay, Sauvignon Blanc, Cabernet Sauvignon, and Merlot, producing approximately 46,000 cases of wine per year. The export market accounts for 50% of Jordan winery's sales. Major importers are the UK, Holland, Belgium, Germany, and Switzerland, where Jordan wines are sold through restaurants and specialty wine shops. The majority of Jordan wine sells between 6,00 and 9,50 pounds; including a lower tier of about 4,99 and a higher tier selling for 12,00 pounds. All marketing, cellar production, and grape growing is carried out by this estate winery; thus, states Gary Jordan, "we have a lot of control over the process." The winery seeks a high quality, good value for money brand image for its wines.

Environmental consciousness plays a large role in the production of Jordan wines, as Mr. Jordan states: "we are very much familiar with the market [for environmentally responsible wines]." When critics attacked the wine industry for the accidental slaughter of chameleons by machine harvesters, the Jordan winery created a wine called "Chameleon," which is supposedly chameleon-friendly. The winery received much press attention for its endeavors to save chameleons on the farm, as National Geographic, amongst other members of the press, expressed interest in the project. The benefits of environmentally friendly marketing, according to Jordan, are the higher price premium consumers are willing to pay, along with the long-term sustainability of production on the farm. In other words, this type of production and marketing is very beneficial to the business.

Social development plays a low-key role on the farm: while efforts have been in place to upgrade farmworkers' cottages since the inception of the business, and provide on-farm and off-farm training to vineyard and cellar employees alike, Jordan winery does not

market its social development strategy. “We have always believed in social upliftment,” says Mr. Jordan, “we have always been a progressive winery.” He states that the incentives of this type of investment are “better quality work, higher productivity, and fewer human resource problems.” Disincentives to farmworker investment include the labour legislation set down by the government, which discourages hiring and investment in already permanent employees. Mr. Jordan describes these laws as “unfriendly towards employers.” Marketing wine as socially responsible is “implying that we weren’t socially responsible before,” notes Mr. Jordan, “I think abuse of labour takes place in other parts of the world, like California, but you don’t see the Californians marketing their wine as socially responsible.” However, he admits that “marketing wise, it’s fantastic,” and says that there “is a lot of money in it for everybody.” He agrees that “there is a niche market,” and states that while “social irresponsibility is in the limelight” in South Africa, and “while there is interest in South Africa,” the time is ripe to take advantage of such marketing strategies.

Reyneke Wines

January 18, 2001

Mr. Johan Reyneke, Co-owner and Co-winemaker

The Reyneke winery on Uitzicht farm located in Stellenbosch is only in its third year of making wine; 1998 being Reyneke's first vintage. The 20 ha farm employs only three managerial employees, and five farm worker families, all of which live on the farm. Currently, annual production equals about 2-3,000 cases, which is approximately one fifth of total production. The winery is still in its "growth phase," according to Mr. Reyneke, and production is expected to increase with the maturation of young vines and the conversion of a pseudo-cellar, in the form of an old cowshed, into a more modern facility. Reyneke wines include Cabernet Sauvignon, Merlot, and Sauvignon Blanc. In 2001, Reyneke aims to release its first organic Pinotage, as well as a (non-organic) Shiraz.

30% of Reyneke wines are marketed domestically, while 70% are sold on the export market. Main importing countries are Germany, the UK, Japan, Denmark, and Belgium. The target market is a niche-market segment, and the winery relies on sales from private individuals and groups of individuals who hold an interest in environmentally and socially conscious wine. Reyneke wines do not currently supply to any supermarkets or larger wine retailers overseas, yet sell wine to restaurants domestically. The wholesale price range of Reyneke wines is typically R25-35 domestically, and 4,99-6,99 pounds in the UK. Therefore, Reyneke wines are marketing in the premium to super premium range.

The marketing focus of Reyneke wines has evolved over the past year, as Mr. Reyneke admits, "quality isn't enough to sell...we realised that marketing is a very important issue [in a competitive marketplace]." Because of a more "holistic" approach to doing business, focusing more on marketing, as well as the elements of quality and style, Reyneke wines have "increased sales tremendously." Reyneke publishes a creative

newsletter, and at wine shows, adopts a “minimalist” approach, to establish the idea with customers of “difference, quality, and style.” The Reyneke staff appears to work hard to establish “personal relationships” with their customers, building a positive association for their wines.

According to Mr. Reyneke, environmental responsibility composes a large part of the Reyneke philosophy of wine production. The move towards organic wine is an ideal: next year Reyneke will release the first vintage of its pilot project, organic Pinotage. Reyneke is very familiar with the market for “green” or “socially responsible” products, stating that he feels that “there is a huge market for green and social products.” However, he notes, in his opinion, “people have a greater appreciation for green products,” rather than socially responsible ones. The environmental philosophies behind the production of Reyneke wines have translated into marketing strategies, yet Reyneke admits that environmental values “are not enough [to sell wine],” and “at the end of the day, people want quality.” He firmly states that “a philosophy, or a paradigm, of production must be at the bottom of any endeavor to go organic.”

On the social responsibility side, Reyneke is undertaking a farmworker development project, which plays part of the ‘holistic’ production strategy of the winery, as well as contributing to its image as a progressive wine producer. Efforts to empower workers on the Uitzicht farm have undergone a lengthy process of transformation. A year ago, a project was underway to give workers an equity share of the business, yet workers opted not to participate, citing the unwillingness to wait 10-15 years to incur a profit from the winery. Furthermore, the Human Rights Commission, an NGO, was invited to the farm to give their opinion on a suitable empowerment initiative. The advice they gave Reyneke was to find a way to “cut the paternalist tie,” which, they stated, was the real “structural imposition on freedom.” The project as it stands today is to develop off-farm housing for the farmworkers, in either Stellenbosch or Kuilsrivier. The farmworkers will use the R20,000 grant from the Department of Land Affairs to purchase a house, along with payments from the Reyneke winery for the next ten years towards mortgage payments, which will make up the difference in cost. In addition, Reyneke is

participating in efforts to improve his worker's education and knowledge of "real life" issues that will arise in living in an off-farm situation, along with basic literary courses. Reyneke is excited about the project, stating that it will "break the paternalist tie," and "prove stereotypes wrong." Additionally, Reyneke hopes his project will set an example for the rest of the South African wine industry as a successful development project.

According to Reyneke, part of his philosophy is doing business in an "unconventional" manner, starting from a basis or a paradigm that is different from most wine producers. Such a radical approach to both societal and environmental issues has translated into the way that Reyneke markets their wine, so as to find the consumer base that supports and believes in their cause. Furthermore, he states that the incentives of this type of production and marketing philosophy is "increased labour productivity, and more independent workers," as well as the establishment of a strong consumer base. He expresses interest in the possibility of being a part of an ethical trade partnership or a fair trade arrangement. The idea of third party auditing was well received; in fact, Reyneke is currently "waiting for the dust to lie" in South Africa to find a local organisation to audit and/or accredit their winery.

It appears that Reyneke wines are searching for more ways to enter the market, by taking full advantage of their special image, linked to environmental and social responsibility. However, it does not appear that social and environmental responsibility are used merely to bolster sales of Reyneke wine; on the contrary, environmental and social values appear to lie at the base of the winery's production philosophy. In other words, marketing their wine as "ethical" is an added advantage, one that helps to distinguish their wine and attribute to its 'brand' image in a competitive marketplace, yet quality wine production, based on a holistic approach focussing on both labour and environment, is Reyneke's foremost concern.

Simonsig

January 22, 2001

Mr. Francois Malan, Director

Simonsig winery is one of the most well known wineries in the Stellenbosch area and the largest estate winery in South Africa. The property has grown grapes for more than 300 years; however, Simonsig is only in its 33rd year of bottling wine. The farm is very large, employing over 170 workers, of whom 120 are farmworkers, almost all of whom live on the Simonsig property. Simonsig produces wines from cultivars such as Pinotage, Chenin Blanc, Shiraz, Cabernet Sauvignon, Chardonnay, and Sauvignon Blanc. The winery bottles over 160,000 cases per year, and exports account for 58% of this production. Simonsig mostly exports to Western Europe and America, to the hotel, restaurant, and catering industries. Simonsig “wants to be on wine lists, not in supermarkets,” says director Francois Malan. However, on the domestic market, wine is distributed through Cellar Master, a local distributing company, which sells to domestic supermarkets. Malan indicates that the volume foreign supermarkets need is not appropriate for the production of Simonsig wines; on the contrary, the winery is seeking a more “niche” market focus.

The market for “green” products is not unfamiliar to Malan. Pieter Malan, the marketing director for Simonsig, has returned from overseas travels, says Mr. Malan, with the impression that the market for environmentally responsible goods is large and growing. Hence, Simonsig has begun to focus more on the environmental component of wine production. Furthermore, Mr. Malan stresses the importance of adapting to a market that is becoming more regulated. Simonsig is currently participating with the ISO 9,000, an overall quality management programme. Mr. Malan indicates that the farm “sprays much less” than five years ago, and makes much less use of pesticides. He states that his winery feels the international pressure to move towards a more environmentally responsible way of doing business.

Interestingly, Mr. Malan does not plan on marketing such environmental responsibility with Simonsig wine. He feels that such environmental standards are “what you must do to keep up;” in other words, that in an increasingly regulated marketplace, a wine producer must stay abreast of current European and American standards or ‘go under.’ Mr. Malan feels that there will come a “general shakeout” of wine producers in overseas markets, and if one isn’t up to regulatory standards, then “we don’t want your wine,” says Mr. Malan. Furthermore, he states emphatically: “If you don’t comply, you can’t sell.” One of the most difficult places to sell wine, says Mr. Malan, is in the United States where regulations are very high for agricultural products. It is evident that the Malans of Simonsig are keenly seeking to comply with what they see as the insurmountable force of international agricultural regulation, which will determine the future of the success of their wines.

As far as endeavors to be socially responsible, Mr. Malan stated that their winery is a “leader in social responsibility.” He cites numerous on-farm projects: a day-care facility for children, full room and board for workers, a healthcare clinic, a pension fund, a funeral scheme, cottages that are equipped with electricity, running water, and sewage systems. Mr. Malan also adds that the farm will further invest in human development strategies in the years to come, noting government regulations such as the Skills Act, the Employment Equity Bill, and the Equal Security and Tenure Act. As Mr. Malan says: “we are satisfied with what we have,” and does not plan to market their “socially responsible” stance towards doing business. However, he does state that the “family set of values” and “care for people” is part of the Simonsig marketing strategy; and it is assumed that “social responsibility” towards farmworkers is part of that philosophy, a “corporate responsibility.” Mr. Malan does not feel the same “pressure” from international markets to invest in socially responsibility as the pressure to invest in environmentally responsibility; indeed, he says that the social aspect of production, to consumers, is “not so important...it’s more important to not have poison on your lettuce.”

Stellenbosch Vineyards

January 24th 2001

Mr. Innus Miller, marketing department

Stellenbosch Vineyards is one of the largest producers in the South African wine industry, producing close to 2 million cases of wine per year. In 1996, four local co-operatives amalgamated into a giant cooperative, and then in 1997 formed the company Stellenbosch Vineyards. The company sources grapes from approximately 160 farmers, from which they harvest 14,000 tons of grapes per year. The main white grapes produced are Chenin Blanc, Sauvignon Blanc, and Chardonnay; while the reds are mainly Cabernet Sauvignon, Shiraz, Merlot, Cinsaut, and Cabernet Franc. The company holds three main wineries: at the Helderberg, Eersterivier, and Welmoed estates. A major part of current production is bulk supply; in addition, another large portion of output is the production of other wine brands, which are not solely owned by Stellenbosch Vineyards, but which the company has a stake in. 65% of wine is exported to countries such as the UK, Holland, Sweden, Denmark, and the United States. Approximately 90% of exports are sold in the large UK supermarkets, such as Tesco, Sainsbury's, and Safeway. The price of wine sold in the UK varies from the bottom tier of 2,99 pounds to about 7,00 pounds per bottle.

As far as social and environmental projects are concerned, Stellenbosch Vineyards has given the 40 farmworker families that live on the three estates one million shares in the company. Hoping to make a profit and provide dividends to shareholders within the next three years, the company hopes that the money generated by the project can further the development agenda on the farms. Stellenbosch vineyards wants to play a participatory role in the process of how the money is spent, however, making sure that it is used "responsibly." The company is also currently investing in training and literacy courses for both vineyard and cellar staff, providing access to certification programs at Elsenburg College, a technical agricultural college. In addition, the company is offering a R10,000 housing supplement to farmworkers, under the condition that the money is being used to

purchase an off-farm house. In total, there are 40 farmworker families living on the three wine estates owned by Stellenbosch Vineyards.

Stellenbosch Vineyards is not unfamiliar with the market for socially responsible goods; being an exporter to UK supermarkets, which all possess an ethical code of conduct. Stellenbosch Vineyards is subject to 'ethical' auditing by Tesco, for both environmental and social regulations. Mr. Miller stated that auditors come from this supermarket about once every one or two years. He emphasised the detail and scrutiny under which the winery's operations were placed; and stated that the final results of the most recent audit by Tesco was a satisfactory response, except for the condition of farmworker housing. Mr. Miller said that he informed the auditors beforehand that the housing was not up to standard, yet that the company "was not prepared to spend more." The discouragement of new housing investments is caused by the new labour laws, said Mr. Miller, and the many problems that come with the Extension of Security of Tenure Act (ESTA), in particular, the "security risk" that comes with housing, and the lack of "controlling measures" after the establishment of tenure. However, the company hopes to move the farmers off the farm into new houses that were vacated by Spier employees.

Mr. Miller feels that there is no market for socially and or environmentally responsible goods; or at least that it wouldn't be suitable for their operation. Efforts to improve worker conditions can be traced to concern over worker productivity and efficiency, especially worker training; as well as the need to satisfy the demands of the large supermarkets. Mr. Miller expressed frustration with the supermarkets' requirements, emphasising the fact that the company would like to receive more financial support from the supermarkets to invest in improvements. He stated that the company recently wrote the supermarkets a letter asking for their financial backing to support such projects. "We are definitely feeling pressure from Sainsbury's and Tesco to invest in social standards," said Mr. Miller, "and they expect a certain improvement out of us." However, he said, we will attempt to go ahead with the improvements with or without their financial backing. He added, "these are things that we have to do."

Thandi (Elgin)

January 23rd 2001

Paul Cluver Jr., financial director for De Rust estate

The Thandi project was one of the first farmworker 'empowerment' initiatives in the South African wine industry. A three-way joint venture between the South African Forestry Department (SAFCOL), the De Rust estate (which produces Paul Cluver wines), and the residents of the Lebanon and De Rust villages, each shareholder holds 1/3 of the company that was named the Lebanon Fruit Farm Trust. In an attempt to prevent the destruction of the forest village and the neighboring forest, the De Rust estate was the initiator of the project. The forestry department contributed 100ha of land to the project, and, combined with the farm of the De Rust estate, the total land owned under the Lebanon Fruit Farm trust is 200ha. The residents of Lebanon village, as well as residents of the De Rust village, formed the Thandi Community Trust, and bought their shares in the Lebanon Fruit Farm Trust with an R15,000/family government subsidy. The project aims to phase out the role of the De Rust estate and the forestry department in the coming years, so that the Thandi Community Trust has sole ownership of the company. Initially, it was agreed that fruit from the farm would be sold under the Thandi Community Trust label, with the royalties going to the members of the trust; however, because the fruit industry was undergoing difficulties, it was decided upon that the Thandi business endeavor would focus on wine production. Thandi's first wines were released in 1998, a Cabernet Sauvignon, Pinot Noir and a Chardonnay, from the grapes that the members had harvested from a 14 ha plot of land given to the workers by De Rust. The members were able to sell the grapes to the estate, which were then made into wine by winemaker Patrick Kraukamp, and released under the label 'Thandi wines.' Currently, the members of the trust have planted an additional 14 ha of grapes, which will be harvested in several years' time. The project aims to eventually build a 'Thandi' cellar, with the members of the trust having complete ownership over their brand, and producing and bottling their own wine. Notably, a company called 'Thandi wines' was formed with the Lebanon Fruit Farm Trust, with 2/3 of shares, and Vinfruco, holding 1/3, which handles all the

marketing of Thandi wines. Thandi wines are marketed mainly on the overseas market, selling wines to the UK, Germany, Finland and Japan. The Tesco supermarket in the UK is the largest importer of Thandi wines, where they sell between 5,99 and 6,99 pounds per bottle.

Thandi wines are marketed as 'socially responsible' wines. Cluver stated that at the time of the inception of the project the company realised that there was a world wide demand for 'ethical' products, and that the release of an ethically produced wine was a timely one. The impetus behind the rise of ethical trade, states Cluver, is purely consumer-driven, where consumers are willing "to pay a premium for environmentally and socially responsible goods." However, Cluver states, the reason behind the development of the Thandi brand was not solely a marketing strategy: although it has helped the Paul Cluver label through publicity and media attention, "the amount of money that it cost to create Thandi is a cost that we will never be able to recoup." Therefore, "why would we have created Thandi merely as a marketing strategy, if we could have used that money to bolster sales of our own label?" asks Cluver, in response to being asked whether Thandi has been beneficial for the Paul Cluver label. "We felt a real need to make an investment in people and in our environment," said Cluver, "Thandi is playing a very important role." The Thandi Community Trust has initiated many social development projects: women's clubs, community halls with internet facilities, creches for children, and a vegetable garden from which extra profits are generated.

While embarking on a project like Thandi is not for the "weak of heart," says Cluver, he feels that "all commercial farms should give the same incentives to workers as business," by giving workers shares in the business and motivating staff. The brand benefits from creating Thandi wine have been successful for the project; however, says Cluver, "if I were a Thelema, a well established winery with an established brand name, I would not try to embark on a venture like Thandi, other than if I had a genuine need to help people." He notes that a producer is often not keen "to bring extra dimensions to a brand name, just for the sake of an added value." Furthermore, he firmly states that "producers should engage in social projects and marketing for the right reasons," and fears that if projects

are not done for these reasons, then are likely to fail or “be exposed” by the media and under the critical eye of importing distributors. The trend towards ethical trade, says Cluver, is an acute pressure felt by producers to be socially and/or environmentally responsible, for fear of being “discredited” by the market, by not adhering to a set of rules and regulations. In addition, he mentions the new standardisation called “Nature’s Choice” set out by Tesco, where he states, “Tesco actually wants to be convinced that the producer actually believes in [social/environmentally responsible production], not that he just does it to do it.” Cluver states that “a global norm will be set,” as these type of regulations become the minimum all over the world, emphasising that “globalisation and technology are forcing people to be ethical.”

Thelema Mountain Vineyards

January 17, 2001

Gyles Webb: Winemaker and co-owner

Thelema is one of Stellenbosch's most reputable wineries; it has acquired an almost cult-like following since its inception in 1988. It is a small, family-run business, and all grapes that go into Thelema's wines are cultivated on the estate. The winery employs about 30 people, including 9 farmworker families that live on the farm. Thelema produces about 25,000 cases annually under the 'Thelema' label; and 25,000 cases of co-op-sourced wine that is bottled and labeled at the Thelema cellars under the label 'Stormy Cape,' and then sold to a British retailer. Of the Thelema label wine, 60% is white and 40% is red. Examples of Thelema wines are: Cabernet Sauvignon, Merlot, Pinotage, Shiraz, Chardonnay, Muscadell, Sauvignon Blanc, and Reisling. Thelema sells 40% of its 'Thelema' label wine directly to the public. About 75% of Thelema wine is sold domestically, and 25% is exported to mainly the UK, but also Denmark, Sweden, Holland and the United States (albeit in very small quantities). The main distributor of Thelema wines overseas are restaurants. Supermarkets and larger retail outlets do not appear to play a role in distribution. The price category of Thelema wines is fairly expensive, as a bottle in South Africa sells for about R75. Therefore, Thelema wines are marketing themselves in the super-premium to ultra-premium range.

Winemaker and co-owner Gyles Webb insists on a "low-key" and a "hands on" approach, and relies upon a word-of-mouth tactic to sell his wine, which usually sells out every year. Change and innovation do not play a major role in this small business, which is doing so well as it is: Webb insists that the business hasn't spent more than R10,000 on marketing in its history. Thelema's wines have acquired a substantial reputation as one of South Africa's best wines, and Webb was named one of the best winemakers in the world, according to the editor of Food and Wine Magazine. This unique position as one of South Africa's top wineries places Thelema in a different category from the vast majority of South African wines: whereas most wineries are struggling to maintain or,

more likely, to create a competitive edge, Thelema sits on a platform of established accomplishment.

This positioning also influences how and to what extent Thelema has been swayed or influenced by environmental production and social development. Webb expressed familiarity with ethical trade initiatives, notably the ETI. To begin, he stressed the importance of environmental “sensibility,” meaning the reduced use of pesticides, yet also the necessity of some chemicals that preserve bottled wine (e.g., sulfur dioxide). Thelema also has one block of experimental vineyard where only copper and sulfur are used, with no herbicides. While Webb is “keen to go organic,” he does not predict Thelema would ever market itself as such. In other words, environmentally friendly production is more of a “production philosophy,” says Webb, than a marketing technique.

As for social development, Thelema has in fact set aside R1 million for staff development; where this money goes, however, is inconclusive and up for debate. Webb insists that his staff must be “motivated” and attempt to devise their own strategies for development projects. Thelema’s winery foreman has used part of the money to build his own house off the farm, and he wants to encourage others to participate in similar initiatives. However, Webb states “the farmworkers don’t want their own houses.” The winery foreman leads weekly farming meetings where problems are discussed, and which has led to “a good, stable workforce,” according to Webb. Ideas for the distribution of the money center on training and education, but plans are tentative and it is unclear at this date how the money will be used.

Webb agrees that an investment in staff will result in a “better product,” as vineyard care is very important. He stated that disincentives to this type of investment are “complex,” and he mentioned the housing issue. He added that new farms being built in the area would not construct farmworker housing, owing to “too many problems.” Webb did not elaborate on types of problems experienced by on-farm housing, but touched upon the issue of social problems, like alcohol abuse and HIV/AIDS, and the added responsibility that this brings to the winery’s operation. Conclusively, it appeared that Thelema is

“itchy” to operate under a more businesslike approach with their workers, yet does not appear to be moving in that direction any time soon. While the disadvantages of on-farm housing and lack of worker education, and productivity are great, perhaps the advantages of a more ‘autonomous’ and businesslike workforce are just too ‘ambitious’ for the Thelema winery. While Webb touts the benefits of social and/or environmental marketing as a means to “reassure” customers in Europe in the US, countries that are “aware” of South Africa’s past legacy of abuses, it does not appear that Thelema is moving in that direction. Although Thelema is apparently one of the more ‘progressive’ wine farms in the region, and gives workers better facilities and salaries than the vast majority of farms (according to Webb), and perhaps would qualify as “ethical” under the ETI’s standards, the winery is just “not interested” in pursuing this approach to marketing. Webb expressed indifference to the suggestion of a third-party auditor, verifying Thelema’s labour practices against a code of conduct (the example of the ETI was given), saying “why not? Yes, we could do it...it’s so basic, we’d be overqualified...but we’d be happy to do it.”

Villiera (Paarl)

January 24th 2001

Mr. Jeff Grier, Winemaker and Owner

Villiera is a 300 ha estate winery, and has been in operation since 1984. The winery produces 110,000 cases of wine per year, 45% of which is white, 33% red, 6% rose and 15% sparkling wine. Villiera's main cultivars are Chardonnay, Pinot Noir, Sauvignon Blanc, Chenin Blanc, Merlot, Cabernet Sauvignon, Shiraz, and Pinotage, with an increasing move towards red anticipated over the next few years. Approximately 40% of Villiera wines are exported. Preferred overseas distributors for Villiera wines are wine retail chains, restaurants, caterers, and hotels. The main overseas markets exist in the UK, Ireland, Belgium, Holland, Austria, Sweden, Germany, Switzerland, Canada, and the USA. Typically, the lower tier of Villiera wines sells (wholesale) for approximately R15 per bottle, while the higher price category sells for about R25-30 per bottle. Villiera seeks a high quality image, and markets itself aggressively through wine shows and other promotional campaign, yet without a high degree of media advertisement. Says Jeff Grier, owner and winemaker of Villiera, "we [currently] don't spend a lot of money on marketing; [but] we want to be become much more focused...we feel a need to keep up with market share."

While Mr. Grier "still has a lot to learn about ethical trade," he is no stranger to the terms "social and environmental responsibility." Having sold wine to Woolworths locally, which has introduced requirements similar to those of the UK supermarkets, he has experienced the process of social and environmental auditing; however, Villiera no longer sells through Woolworths. He states that he does see the market as profitable, saying that "there is quite a bit of a niche." Villiera markets one of its wines, "Natural Brut," as environmentally friendly; it is made organically, without any additives or preservatives. Mr. Grier states that "the press has loved it," and that the winery has received much attention and publicity for its emphasis on "green" wine. One of the

biggest incentives for this type of marketing, he says, is the price premium customers are willing to pay.

On the social side, Villiera has invested in a tertiary education fund for workers, amongst other educational projects, such as providing books for the local school, establishing a literacy program, and providing training at Elsenburg College for both cellar and vineyard workers. Marketing their wine as socially responsible “has crossed our minds,” says Grier, but “basically doing it because it sells wine is not good.” However, Grier acknowledges that “the press loves worker initiatives, so, from that point of view, we do mention it.” When British Labour Secretary Peter Hain visited South Africa in 2000, he selected three wines from socially responsible wineries, which included Fairview, Backsberg, and Villiera. Through this, Grier said that Villiera received a lot of attention and publicity, which was good for business. Yet Grier maintains that Villiera will not put “socially responsible” on the back of a label, but if “people ask we will tell.” While he “hates to think that people are doing social upliftment to sell wine,” perhaps it will help some producers and farmworkers alike. However, he points out that job losses are a real threat for this type of investment, saying that in order for the producer to comply with certain standards, he/she will have to cut a lot of jobs in order to ‘measure up.’ At any rate, he adds, because social development has become such a part of labour law, “it is not something that is unique, and [living up to labour law is] hardly a marketable issue.”

The benefits of social investment for Villiera are “more motivated workers,” and as cost-effective for the business in the long run. It is shortsighted, says Grier, to not see social investment as cost-effective. Villiera has hired a human resources company to consult the winery on how to be more productive; the company spoke to every member of the staff anonymously so that management could “know how people feel,” in order to make people more “happy” and to improve productivity.

Interestingly, Grier, as chairman of the Paarl Vintners Association, has initiated a social development contract within the association, of which all members are participants. This contract states that farmers need to be committed to the social upliftment of their workers

on a general level; Grier feels that such an initiative is very important, yet more or less reemphasises that “a lot of this is the law, and therefore is nothing new.” As for marketing, Grier says “as a group, it is easier to use a marketing strategy [like the social development contract],” to bolster the region’s image. He adds that there is a real need for a group auditing process, whereby members will be subject to a round of compliance audits. In addition, he states there is a need for more training centers to become available to producers and farm workers alike.

Waterford

January 26th 2001

Mr. Kevin Arnold, winemaker

Waterford winery is very new, as construction of the facility was just recently completed in 1999. The winery sources grapes from other farms, yet endeavors to grow most of the grapes on its own estate. Currently, however, only 14 ha are under production. 15 permanent labourers are employed on the farm, with a total of nine families living on the premises. The farm's focus is on red varietals such as Cabernet, Merlot, Shiraz, Cabernet Franc, and Malbec. 60% of Waterford's 20,000 case production is sold locally, while 40% is sold overseas; however in the coming years the winery hopes to greatly bolster its exports. Major markets for their wine include Finland, the USA, Japan, Singapore, Austria, and Switzerland. Distributors include mostly restaurants, hotels, and private buyers. Wines sell between R50-70 (for red), and R30-40 (for white). Waterford is seeking a top-end image, falling somewhere in the super to ultra premium price and quality range; and as a winery which is "a good, honest family business... which ruthlessly pursues quality." Currently, Mr. Arnold, winemaker, is conducting all the marketing duties for the winery. Waterford relies on a "word of mouth" and "personal" approach to marketing, emphasising wine shows and tastings, along with international travel, to increase the sale of their wine.

As a very new operation, Waterford is "just beginning" to consider 'ethical' production and marketing. "We'll put to use whatever we can," said Mr. Arnold, in response to whether or not the winery will invest in such endeavors; "we've only just started...we've got to look at these things." Yet, he added, "first we need to establish our brand image and integrity." However, the winery is currently investing in educational upliftment projects for their workers, offering to subsidize education, and focusing on worker "well-being within the community." The project includes funding education for farmworker children, and offering them employment at the winery after they have completed their studies. "We believe in a 'three-generation philosophy'," he stated, emphasising the

importance of continuity in the business. “We want workers to be self-sufficient,” said Mr. Arnold, yet “there is a lot of work still to be done.” Environmental production did not appear to be an issue for the winery, outside of the IPW auditing process.

Marketing environmentally and socially responsible products “appears as if it is a smokescreen,” said Mr. Arnold. He emphasised the fact that one can never be sure if this is false or true advertising. In addition, he adds that it is being used to cover up quality, or lack thereof. However, he adds, people are seeking to be more in touch with the products they are buying, and desire to know how the product was made, and according to which standards. “The more things change technologically, the more people want to know how the products they buy were produced,” he said, “technology complicates lives, so people are going back to the basics... the human factor is becoming more and more important in big supermarkets.” He added that it is important “to eliminate the backlog” that the wine industry has in terms of its human development. For that, he stated, “there’s nothing better than international competition...[which will force producers] to have their ducks in a row.” In order to achieve success in the wine business, he said, “success has to be based upon long run sustainability and productivity.”

Siyabonga Wines

January 29th 2001

Mr. Graham Knox, owner

Siyabonga (a isiXhosa word for ‘we give thanks’) wines were first released in 1998. The grapes from the original vintage were sourced from neighboring farms in Wellington, but consecutive vintages have attempted to incorporate more of the Siyabonga farm’s own grapes. The farm currently has 12 ha of vines under production, which have existed on the property for more than 30 years; in addition, a further 8 ha have been planted. The farm is only bordered on one side by another farm, which has helped the lack of the spread of plant disease. Because the farm has been so resistant to disease, the grapes produced on the farm are of “very high quality,” says owner Graham Knox. Almost all of Siyabonga’s 1,350 cases/year are exported to an agent in France, who distributes the wine through restaurants and specialty wine shops. The retail price of Siyabonga wines is about 55FF (R45) for white wine (Severney), and 90FF (R80) for red wine (Pinotage). Siyabonga’s image is an earthy, “handmade” wine, which has been “made in a special location.” The brand is definitely “New World,” says Mr. Knox, and stresses its ‘African-ness’ more as a distinctive trait to separate it from the wines of Australia, California, etc.

As a marketing expert who has spent more than 30 years in the wine business, Mr. Knox is “very aware” of the trend towards ethical trade, yet he hasn’t made any specific study of the market. However, he feels that the demand for ethical goods is “significant, and increasing;” in addition, he adds that environmentally responsible goods seem to be more popular than socially responsible goods. “In ten years, distribution channels will only buy products that are environmentally friendly,” says Mr. Knox. There is definitely more “difficulty in selling socially responsible products,” he said. “Alcohol [itself] is already on the edge [of being a socially responsible product],” he notes, in addition, because wine is a luxury good, by adding a social issue, one is “devaluing the inherent value of a luxury good.” By attempting to give a product three or four different images, “you get a

diffused image or brand, instead of a clear, sharp image” he said: “A product can only have one image.” He notes that “buyers might pay ‘lip service’ towards ethical trade, [“because organic (for example) is a selling point”] but when they get down to making a purchase, profits come first and principles are compromised.”

Environmental responsibility is a priority on the Siyabonga farm, but social responsibility occupies the top slot. The farm is conducting an educational and life skills training empowerment project with its 7 families, in total, 17 adults and 10 children, run by UWC educational resource group ‘Llwimi,’ and funded by the Wine Industry Trust. When Mr. Knox, an Australian, first moved to the farm in 1997, he was “shocked [by] seeing how people lived,” in a “master-servant” relationship. He attempted to explain to the farmworkers that “they have rights,” yet settled into his new life with an “uneasiness,” being requested to “intervene in fights...and play the traditional role of a farmer.” As he tried to establish a new relationship with his workers, he began to notice the enormous social problems that existed on the farm. “Not my problem,” said Mr. Knox, “was not the solution.” In addition, because the vineyards were of such exceptional quality, Mr. Knox said he felt he needed “people to be very well trained... who could read and write, and understand vines... and the concepts of quality and process.” In a “disorganised search,” where he searched for “anything, or anyone who would listen,” Mr. Knox said he could not find a single example of a farm that had established a truly holistic solution to farmworker development issues. He stumbled upon ‘Llwimi,’ (‘enlightenment’) a loosely knit group of educators located at the University of the Western Cape. The group agreed to establish an educational and life-skills training project on the Siyabonga farm; furthermore, the Wine Industry Trust agreed to fund the program and named it as a pilot project for farmworker development in the wine industry. On the first day of class, Mr. Knox was struck by “a graphic illustration of what illiteracy means:” the photograph of every adult and child living on the farm (including Mr. Knox and his wife), with his or her name listed underneath, was posted on the blackboard, yet not a single member of the farmworker community could pick out his or her individual picture. Mr. Knox said, “I then realised how much these people are stuck in a place in society...they don’t know how they got here, or how to get out, even if they want to get out... I realised what this

system had done to people.” The project runs a preschool class, a primary class, and an adult education course. All material is ‘outcome based,’ meaning that is designed to “achieve goals,” and is ‘contextually-driven,’ providing farmworkers with ‘real-life’ skills. The project has been very successful thus far, says Mr. Knox. The children in their class have become the “star students” in their local school, and the class has attracted other children from neighboring farms.

The Siyabonga wines are not marketed as socially responsible, nor as environmentally responsible. “We are getting our reward because people’s lives have changed so much,” said Mr. Knox. Marketing social values “is not the particular route we have chosen,” he said. When asked what type of disincentives there are to this type of investment, for other farmers, he suggested that people are “politically afraid... [that people think] it’s a waste of time... that these people are incapable of being responsible and changing their lives.” He added, many farmers say, that “to work well with workers, you have to treat them as children, otherwise it doesn’t work.” Other farmers told him that “the course we’re on is impossible.” The Siyabonga project is the first step in this pilot study- the project is expected to expand to 18 other farms in three different districts.

As for his views on ethical trade in the wine industry, Mr. Knox noted that it can be “very beneficial if it’s a group thing.” “There’s no [real difference made by] Siyabonga selling wines as socially responsible,” he said, “but if *South Africa* changes its style and becomes socially-reformed, by beginning self-motivated programs, then independent brands will benefit and so will people.” He added: “no one is going to search for one little brand just because of its socially responsible image.” Interestingly, he feels positive that the South African wine industry is moving in that direction, that there “is a lot of possibility...for getting to that point:” for instance, “the speed and effect of the IPW (integrated production of wine) [has been] remarkable... and a very clever idea, [by being] a self-policed thing...[and] not becoming a control board... They said, ‘we want all farmers to do this, because we will benefit as a group.’” Now, he said, “the next step is to do that with labour.”

6.2. Conclusion: *Summary of Individual Interviews*

The interviews were able to cast an illuminating light on the possibility of integrating ethical trade in the South African wine industry. The following delineates the major points that emerged from each interview:

a) *Durbanville Hills.*

This is a new winery, aggressively trying to market itself on the world stage. Therefore, as it searches for new competitive angles, like several other producers in the wine industry, 'ethical' angles could play a role. However, as a winery owned and controlled by Distillers Corp. (now Distell), it is evident that Distell holds the real 'reigns' in altering production and/or marketing strategies for Durbanville Hills. Evidently, from the establishment of the community trust, amongst other programs, it is clear that Durbanville Hills is conscious of its labour image. However, it has not chosen to market itself as 'worker friendly' in the near future. Thus, it is not playing an 'overt' role in any ethical trade initiative. Possibilities for ethical trade developing a foothold here will be seen as overseas markets require more social/environmental standardisation from producers.

b) *Graham Beck:*

The interviewer did not know beforehand that Graham Beck wines was a participating member of the Ethical Trade Initiative. Because specific information concerning the ETI's pilot projects is confidential, it is therefore difficult to know the exact opinions of the ETI and its auditors on the Graham Beck operation and its compliance with codes of conduct. However, this interview provided the opportunity to directly ask a member of an ethical trade arrangement if he, as a spokesperson for the company, sees any direct or indirect *economic incentives* in such participation. Weaknesses of the example include the fact that the interviewee was a marketing director, and perhaps knows too little about the nature of the ETI and the actual developments and occurrences on farms.

c) Jordan Winery:

This interview illustrated that 'environmentally friendly' is a much less 'charged' marketing strategy than being socially responsible, which gives an added image to the Jordan brand that is undesirable or unnecessary. However, it is evident that the business is keenly aware of the trend for 'ethical' products, and sees such endeavors as profitable and financially viable. The Jordan example confirmed many of the same points that had been made by other wineries: that the producer sees the trend for environmentally and socially responsible goods, and predicts that it is profitable, yet chooses not to market its wines as such because of an already established brand image, or because of the perception that the term 'socially responsible' is too loaded, and inappropriate for their image.

d) Reyneke Wines:

Because one cannot specifically know otherwise, it is assumed that the combination of consistent quality and ethical values play a role in the success of Reyneke wines. Furthermore, one can safely assume that the market niche Reyneke has targeted is one that is profitable; in other words, Reyneke has been successful in choosing to follow the 'ethical' path of production and marketing. The fact that Reyneke has achieved profitable results from an ethical line of marketing is encouraging for the further development of ethical endeavors in the South African wine industry. However, Reyneke is a small winery with a limited production capacity and a small niche market segment, mainly in Germany. Lessons for other, larger wine producers are perhaps inappropriate; for instance, what does the success of Reyneke wines mean for a large cooperative winery that exports to the UK? Can it still be inferred that there is a market for ethically produced goods? Furthermore, the small size of the Reyneke operation facilitated the implementation and continuation of ethical practices, which would perhaps be difficult for a larger wine producer. Despite difficulties in drawing comparable lessons from the Reyneke example for other producers, it remains clear that Reyneke wines, which have focussed on a niche market segment, stressing environmental and social responsibility, have achieved financial success. The future of this export-oriented, ethically-focussed

winery remains to be seen in the coming years; perhaps giving clues as to the longevity and breadth of the consumer movement towards ethically-produced goods.

e) Simonsig:

The Simonsig example shows the extent to which producers are being influenced by international regulatory standards, especially those that control environmental quality and food safety. The Malans of Simonsig are acutely feeling the demand or perhaps 'institutional' demand (from supermarkets, the EU, etc...) for products that fit into a certain bracket of environmental responsibility. Interestingly, the same pressure is not felt for verifying the social component of a product, says Mr. Malan. Although perhaps their labour standards fit into the category of 'ethical', considering their purported advanced labour conditions, it is highly unlikely that Simonsig will do more to invest in labour, adopt a code of conduct verifying/monitoring labour standards, and/or market its wine as socially responsible until the social responsibility movement equals in influence to that of the current environmental standards movement. However, a useful lesson from the Simonsig example is that it provides evidence of how powerful market demand can be in encouraging change and innovation in production methods.

f) Stellenbosch Vineyards

The interview with Mr. Miller shed light on a large wine producing company's relationship with the UK supermarkets, notably, Tesco and Sainsbury's. It became apparent that the interviewee was well aware of the trend towards ethical trade, especially in terms of social upliftment. It was interesting to note the interviewee's opinion towards the supermarkets that are requiring the winery to invest more in its labour force, as he expressed frustration with the supermarkets for not backing such requirements with financial support. However, it also became clear that, despite the supermarket's lack of financing for social upliftment, Stellenbosch Vineyards will carry on modifying and improving its labour management strategies to fit the supermarket's demands. Apparently, the loss of the supermarket's business is too great a risk to take.

What is made clear by the Stellenbosch Vineyards example, as by others, is that the supermarket-driven ethical standards will perhaps provide the real ‘push’ towards ethical production; however, this applies to only those producers who are actually selling to supermarkets in the UK, and furthermore, it is no guarantee for long-term equitable change, as it is not likely that the supermarkets will “take on” an employer just “to do him or her a favor” because he/she is being ethical. Rather, it appears that the cutthroat competition between wineries vying for a spot in supermarkets means that the ability to place and let alone maintain a spot in a supermarket is precarious and not guaranteed.

g) Thandi:

Thandi provides a good example of ethical trade in the South African wine industry: a wine-producing venture that is both *investing in* and *marketing* social responsibility. The project has been very successful in both its contribution to human development in the communities and in creating effective marketing strategies. The phasing-out role of De Rust and SAFCOL implies that the Thandi communities will be self-sufficient and no longer dependent on the De Rust estate; a notable and important feature of the Thandi project. While the Thandi label is helping De Rust’s own label, Paul Cluver, in terms of marketing and exposure, it appears that the primary motivation in creating Thandi arose out of concern for the local communities and the environment. However, the financial strain behind the establishment of this project could be a deterrent to other producers willing to invest in social upliftment; indeed, it can be said that, as in the case of Thandi, the financial incentives for participating in an ethical trade initiative are often *offset* by the cost the business incurs by investing in its labour, in the short term. Such a judgment provides insight into providing producers with sanctions and an incentive to participate in ethical trade initiatives.

h) Thelema:

Thelema may well operate as ‘ethical’ on the production side, yet without using such tactics to bolster sales. Conclusively, the brand image of Thelema is already so established and well developed that it is not necessary to add another angle to its image. Thelema provided a useful and interesting case study of a producer at the ‘top’ end of the

South African wine industry, one that is established and well regarded. Indeed, what emerged from the interview included the fact that, because Thelema is so well established in its brand name, the opportunities afforded by ethical trade presented no interest to Webb, winemaker and co-owner of the company. Therefore, the economic incentives of ethical trade are *not likely* to induce Thelema to move towards a focus on social development or environmental responsibility. However, the 'businesslike' focus of the successful winery may be the driving force behind such a development, however long-term, as values of human capital productivity and environmental quality become increasingly important. The example of Thelema is an appropriate one in demonstrating how an established winery is hesitant to move towards practices that alter or change an already successful operation. In addition, Thelema is an example of an 'introverted' ethical trader, or one that is perhaps adhering to generally accepted 'ethical' codes of conduct, but chooses not to market itself as such.

i) Villiera

The interesting points that arose out of the Villiera interview were the interviewee's knowledge of ethical trade and the fact that the Paarl vintner's association has established its own code of conduct concerning labour practice. Such insights again reflect the high degree of awareness in the industry to improve its labour standards. Furthermore, the interviewee reemphasised several points that others had remarked upon. For instance, he expressed a keen disinterest in marketing ethical production practices on the whole, stating that such endeavors are dishonest and opportunist. However, what became clear was that, for Mr. Grier, environmental or 'green' marketing was a different subject altogether (a different 'ballgame') than the marketing of social upliftment or labour investment. This reflects the sentiments of many interviewees.

j) Waterford

The Waterford example is interesting because of its relative newness within the wine industry. As Mr. Arnold noted, there seems to be a 'scrambling' to find a distinguishing brand image within the wine industry; and perhaps ethically produced wine will offer such a 'niche' image to producers. However, Waterford has not chosen that route in

terms of its marketing strategy, focusing instead on a more top-end, super-premium quality image. Again, this example illustrates the fact that such top-end wineries are not seeking to add an additional added value to their wine; however, many of these wineries are investing in environmental and social issues, but are doing so without promoting their projects. In addition, it is notable that such small production estates, which distribute, for example, through restaurants, hotels, and specialty boutiques, do not feel the same type of pressure to move towards ethical production as do those producers who are selling through supermarkets.

k) Siyabonga Wines

The Siyabonga example provided a view of the lack of social support and infrastructure available to farmers to aid their farm workers in basic human development needs (i.e., educational, health care programmes). In addition, this interview demonstrated how a farmer chose to invest in social upliftment, not for short-run financial rewards or marketing benefits, but out of a sincere desire to provide a framework for human development and the long-term viability of the winery. Such an example may not typify the South African wine industry, but nevertheless reflects the seriousness and desperation of rural poverty and the urgent need for the wine industry to aid in bettering the conditions of its workers. Interestingly, Mr. Knox provided insight into the possibility of creating a similar project for labour standards on farms as that of the IPW.

CHAPTER VII

Analysis:

Complements or Opposites? Opportunities, Obstacles, and Implications for Ethical Trade and the South African Wine Industry

7.1. Introduction

In this chapter, we shall explore the opportunities, obstacles, and potential implications for integrating ethical trade in the South African wine industry. Such a proposal is ambitious: ethical trade is a new and little-researched field, and the South African wine industry is a complex and highly fragmented organisation. However, there are key lessons and insights that can be extrapolated from attempting to integrate these two subjects. In this chapter, first, the case for ethical trade in the South African wine industry will be made. Secondly, the opportunities for ethical trade and the wine industry will be constructed, based on the research. Thirdly, the obstacles for integrating the wine industry and ethical trade will be illustrated. Lastly, a synopsis of the potential of the wine industry to trade ethically will constitute the final part of this chapter.

7.2. Results of the Research: The Case for Ethical Trade in the South African Wine Industry

The assumption behind this research rests upon the hypothesis that the South African wine industry has deficits that the adoption of ethical trade can fill. In other words, ethical trade can aid in augmenting the competitiveness of the South African wine industry. Is this a fair assumption?

As this research has demonstrated, the South African wine industry still lags in adjusting its production and marketing strategies to meet demand. Indeed, this is illustrated by the high output of low-quality, white wine from the industry, its continuing inefficient relation to its labour force, and its overall lack of strong, distinctive marketing strategies. Since the beginning of the 1990s, the industry has experienced rapid economic growth

based on the removal of trade sanctions and the increased world wide interest in New World wines; however, as competition between wine producers creates a more fierce marketplace, it is clear that the South African wine industry must carry out the proper steps to ensure its viability on the world stage, by investing in quality production, natural resources, and brand equity. When analysed, as in Chapter VI, it became apparent that environmental and social responsibility play an important part in maintaining and expanding international competitiveness. It is thus fair to make the following statement: *Although not a solution to the problems of the wine industry, it is clear that investment in environmental and social responsibility are necessary to the success of the South African wine industry.* Several facts contribute to this conclusion. First, it can be said that *environmental* responsibility is necessary to the wine industry based on the following:

- 1) The modern consumer in Europe and America is increasingly concerned with environmental factors of production, relating to both environmental sustainability (the absence of harm done to the environment) as well as food-safety concerns. In addition, research has proven that consumers are willing to act on their environmental preferences; this means that a firm which does not provide an environmental guarantee, or which has been exposed by the media as environmentally-unfriendly or unsafe for consumption, risks boycotts and subsequent loss in market share.
- 2) The agro-food chain in Europe and America is increasingly translating this consumer demand into requiring more out of its suppliers in terms of environmental responsibility. More and more distributors/buyers are requiring that suppliers possess some sort of environmental certification/accreditation (e.g., ISO 14,000, HACCP, EUREPGAP).
- 3) This trend towards environmental standardisation is growing rapidly and is expected to *become the norm* throughout the agro-food chain in the forthcoming years, implying that all suppliers to Europe and America must somehow prove their environmental credibility. Standards like ISO 14,000 might become the base criterion, because they provide a common reference point from which to facilitate trade.

In light of these conclusions, it is apparent that environmental quality control is *necessary* to the viability of the industry, by ensuring its place in the international market, and perhaps aiding in expanding its market share. Thus, it is a positive feature of the wine industry that its IPW scheme is in place, and so far, operating very successfully. Such a step illustrates the growing global awareness of the wine industry and will pre-empt the industry from potentially dramatic damage to its reputation. However, it is necessary that the wine industry continue to upgrade its environmental standards in the IPW and make sure that its monitoring and auditing programme is working successfully.

In terms of social responsibility, or the investment in farm labour, it can equally be stated that such an investment is necessary to the international competitiveness of the South African wine industry. This conclusion can be drawn based on the following:

- 1) The modern consumer in Europe and America is increasingly aware of the social factors of production in a product. A growing global consciousness, spurred by information technology and media access, along with the exposure of sweatshop labour, the rising concern over the failure of Third World development, and the skepticism of many consumers over MNEs, have all resulted in a demand for more responsible and humane conditions of employment for the world's workers, especially in developing countries. This awareness has translated into an increasing consumer demand for socially responsible products.
- 2) When exposed by the media or consumer activist groups, a firm's neglect or abuse of its labour force can be highly destructive to its image. The avoidance of this type of damage can be achieved through investing in labour, and therefore accumulating 'integrity capital.'
- 3) The South African wine industry has acquired a negative international (and domestic) reputation based on indecent labour practices (e.g., the *dop* system). Furthermore, the human capital productivity on the average wine farm is low, based on the poverty of the workers and the uneconomic organisation of labour. Therefore, it would behoove the industry to invest in improved labour conditions, as this investment would theoretically pre-empt increased governmental legislation which could harm

trade, as well as harmful media exposure which would dramatically decrease sales, and increase the productivity of labour, thereby reducing costs.

- 4) In addition, there is an increasing market demand from buyers/distributors for suppliers to provide assurance that their labour conditions are decent. In effect, there has been a rapid rise in social auditing and social standard setting, by a wide variety of role players, including NGOs, government, trade unions, and businesses themselves (e.g., SA 8,000, the ETI, etc.).
- 5) Finally, the largest buyers of South African wine, the UK supermarkets, have all implemented an ethical code of conduct that targets the standardisation of labour practices from their suppliers. While these supermarkets' codes are being implemented on different levels according to the specific store (for instance, Tesco is requiring all its suppliers to adhere to codes whereas Sainsbury's requires the same from only its *own-brand* and fresh-produce suppliers), it is clear that there may well be a *rolling-out* of these standards to all suppliers in the coming years, a development which would increasingly target South African wine producers.

Although the wine industry has a long road ahead in terms of investing in its labour force, this research has proven the indispensability of such an investment for the industry's viability in the world market.

In addition, both social and environmental responsibility could theoretically aid in other aspects of the wine industry's current deficits. For instance, social and environmental investment could improve *quality production*, by reducing the use of harmful chemicals and forcing the industry to adopt innovative methods of production, and by increasing worker efficiency and improving vineyard/cellar skills. Secondly, this type of investment could aid substantially in the *marketing* of South African wine; as ethical trade calls for the marketing of a product as socially and/or environmentally responsible, this could provide certain producers with the kind of brand-building and niche market focus which the industry needs in this era of heightened competition.

It can therefore be assumed that the case for ethical trade in the South African wine industry is strong, as such an investment in environmentally/socially responsible production and marketing endeavors could provide many benefits to the industry. It is now appropriate to examine the opportunities that exist for building ethical trade in the industry.

7.3. Opportunities

It is important that social and/or environmental responsibility become a management strategy, and thus become a part of the business' operations. In order to build this ethic into the business, a certain structure of management strategies are needed, and can take the form of codes of conduct or other initiatives. Such initiatives to institutionalise and monitor socially and/or environmentally responsible practices is called ethical trading. It is important to consider that the adoption of ethical trade is voluntary, and virtually limitless – meaning that any interested producer should be able to find a means to trade his/her wine ethically. There are a plethora of labeling and code of conduct initiatives, which vary in terms of structure, but which, for the most part, are open to interested parties.

7.3.1. Codes of Conduct

(a) Adoption of a private code

The establishment of an ethical code of conduct provides a useful *starting point* to any wine producer interested in building social and environmental responsibility within the business. Although the concept of an ethical code of conduct is a relatively untapped field in the wine industry, as demonstrated, it is clear that this initiative holds vast potential for producers. Fundamentally, a producer should be committed to the principles of social and environmental responsibility as an important aspect of production, not only marketing. A code should ideally cover all aspects of labour and environmental strategy, and include technical and detailed criterion for compliance.

Based on the research, and the lessons extrapolated from Chapter III, it can be said that other aspects of a successful code are:

- 1) The code should be successfully communicated to all internal stakeholders, i.e., managerial staff and cellar/farm workers.
- 2) The code should deal with the complexities of labour on South African wine farms, i.e., increasing seasonal/casual labour as well as female labour; as well as the expected increase in job shedding when an ethical code is implemented.
- 3) The code should attempt to empower and train workers; thus focussing on human development and productivity. The code should also attempt to involve workers in more managerial tasks, and attempt to sever the paternalist tie that binds workers and farmers.
- 4) The code should essentially adopt compliance with the IPW as a tenet, which draws upon international agro-food safety standards (e.g., ISO 14,000, HACCP, EUREPGAP, etc).
- 5) The code should draw from other internationally agreed standards relating to human rights, such as ILO tenets regarding workplace conditions and fair employment practices, and should draw background from other internationally acknowledged codes (e.g., SA8,000, ETI, etc.).
- 6) Monitoring and verification of a private code should ideally be carried out by a third-party auditor in order to build transparency; ideal auditors would be local NGOs, or economic consulting firms such as Price Waterhouse Coopers.
- 7) Effective means of enforcing the code should be established.
- 8) The code should be successfully communicated to buyers and retailers, and other important external stakeholders.

(b) Adoption of an Umbrella or Multi-Firm Code

Perhaps the most accessible option to an interested wine producer is the adoption of an umbrella code, which provides him/her with a 'ready-made' code, as well as with a code that possesses more of an international transparency and reference point. Although these

codes will perhaps be limited in their relevance to the unique situation of a South African wine farm, they can nevertheless provide an excellent starting point for producers seeking to build ethical trade into their winery. Options available to producers are:

1) The Ethical Trading Initiative (ETI):

The ETI is currently operating a pilot project in the South African wine industry, where, on several farms, the ETI has implemented its base code, which covers many fundamental aspects of social responsibility, or worker's rights, largely based on ILO conventions. Membership in the ETI "shall be open to companies accepting the purpose and principles stated [including the base code and the commitment to monitoring and independent verification] and which are prepared to participate actively in ETI activities..." (ETI 1998:9).

2) SA 8,000

Created by the Council on Economic Priorities Accreditation Agency (CEPAA), SA 8,000 is a code that focusses on social responsibility. As discussed in Chapter III, the SA 8,000 aims to provide a 'best practice' mode that incorporates consensus standards on labour conditions (based on ILO conventions). This standard must be verified by a third-party auditor accredited by the CEPAA, and the fees of participation must be incurred by the interested producer. Indeed, SA 8,000 could offer many benefits to wine producers, as the benefits of the code lie in its international transferability and in its simplification of the complicated realm of social accountability.

3) ISO 9,000 and 14,000

These standards provide a strong international guarantee to buyers, thereby offering South African wine producers many incentives for participation. According to the ISO, "industry-wide standard[s], internationally recognized, developed by consensus among trading partners, [serve] as the language of trade," and thus provide a common reference for businesses ('Why is International...?' n.d.:para. 3). Whereas ISO 9,000 focusses more on overall quality management, ISO 14,000 specifically targets environmental management. Yet both these standards are generic management system standards, meaning that they provide a model of 'best practice' to suit a firm's individual operations. This provides an advantage to South African wine producers;

however, neither code incorporates labour standards, outside of the realm of worker safety standards. ISO does not provide auditing or verification services, therefore a producer must seek an auditor accredited by the ISO to carry out verification. The cost of implementing the ISO schemes must be incurred by the producer.

4) Labeling initiatives

For an individual producer, private labeling initiatives are recommended as a means to more directly communicate to the consumer the ethical attributes of the product. Indeed, labeling is often the strongest means towards marketing an ethically produced good. However, private labeling initiatives are indeed risky, owing to their highly visible nature; it is thus necessary that any private labeling initiative involve a third-party auditor to monitor and verify adherence to codes. However, the highly visible brand label on a bottle of wine offers the opportunity to state certain ethical principles, without issuing a label, *per se*. Therefore, a wine could advertise its ethical qualities along with a description of the wine (e.g., its principal flavours, aromas, etc.). Indeed, the highly visible brand nature of wine affords many opportunities for labeling or 'label-like' advertising. Furthermore, if a producer is interested in a labeling initiative, the Fair Trade Labeling Organisation (FLO) issues labels to producers in compliance with certain 'fair trade' or 'alternative trade' principles; creative investments in labour strategies could offer the opportunity to participate with the FLO and to obtain a fair trade label.¹⁶

7.3.2. Industry-wide Initiatives

While there exist many opportunities for individual producers to incorporate ethical trade into their business operations, there are also many opportunities for the South African wine industry *as a whole* to adopt innovative, unique, and progressive ways of building social and environmental responsibility. Industry-wide initiatives have many advantages

¹⁶ Fair trade advocates the support of disadvantage producers/workers; therefore, a wine producer engaging in an upliftment or joint-venture project with his/her workers could theoretically qualify for a fair trade label.

in the sense that they create local ownership, by involving many industry players, and are more knowledgeable of the needs and deficits of the wine industry.

The South African wine industry could more fully expand its ethical trade agenda to codify and set standards for aspects of labour management and social upliftment for all wineries and wine farms. While the IPW scheme composes part of the successful integration of environmental responsibility in the wine industry, this research has illustrated that labour issues may grow to occupy the same importance. A code of conduct similar in structure to the IPW, yet dealing with labour, could be similar to the Paarl Vintner's Association's code of conduct, and draw upon the base code and experience of the ETI in South Africa. The wine industry could therefore establish a separate board of 'social accountability,' which would carry out the drafting of the code, publicity and membership, as well as the monitoring and verification. Such a board should draw heavily on outside resources in order to build its credibility, for example, local NGOs, government officials, trade unions, academics at local universities (i.e., the University of Stellenbosch, the University of the Western Cape, the University of Cape Town) as well as consulting firms; indeed, it is perhaps inevitable that a wine industry-promulgated code will be subject to criticism without the sanction of outside support. Membership in this scheme should require a nominal fee, which should be used to fund the project's operations. Auditing could be carried out on a self-audit basis, like the IPW, followed by random spot-checks by independent bodies accredited by the board of social responsibility.

Such an initiative has many benefits. Being instrumental in dealing with one of the wine industry's largest problems, labour issues, a wine industry code of conduct could perhaps gain the same amount of industry support as did the IPW scheme. The industry's backing for such a project could allay skepticism from producers and further sanction the need to improve labour conditions in order to maintain and expand market share. Furthermore, an industry-wide code can be marketed in the same way as the IPW, without a label, yet advertised to overseas buyers as an assurance that *all* South African wines are environmentally *and* socially responsible. This proposal could be the most ideal out of

all the opportunities that exist for building ethical trade into the South African wine industry, as it draws upon the framework of the enormously successful IPW program. Put differently, a holistic industry-wide attempt at solving issues of social/environmental responsibility could theoretically provide the most overall momentum to the development of ethical trade.

7.4. Obstacles

Perhaps only by reviewing the obstacles that inhibit the wine industry from adopting ethical trade can the *real opportunities* therein be clearly revealed. Although the case for ethical trade is strong, and the opportunities abundant, there are a myriad of constraints which might stand in the way of such a development. It is thus important to consider the following obstacles – crucial factors which must be considered:

(a) Uncertainty of market

Although the demand for socially and/or environmentally responsible products is large in European and North American markets, it is important to consider the actual demand for socially and/or environmentally responsible wine. *This research has shown that it is fundamentally market incentives (or pressure) that will induce wine producers to move towards ethical trade.* It can be inferred from this research that the demand for environmentally friendly products is great in the agro-food sector, meaning that producers must comply with a rising ‘ethical floor’ to obtain market access. In this case, environmental responsibility is not necessarily a quality that must be marketed directly to consumers, yet *is necessary* to communicate to buyers in order to enter a market. Social responsibility *does not* yet occupy the same level of necessity in the marketplace. Although demand is increasing, especially in the UK supermarkets, social responsibility has not yet developed an ‘ethical floor.’ However, it is expected that this floor will rise in the coming years, as supermarkets roll out their base codes to all suppliers.

In the meantime, what are the market incentives of producing socially responsible wine? Can producers find a valuable ‘niche’ market through marketing their wine as socially

responsible? Such a marketing angle is complicated and highly ‘loaded,’ as demonstrated through the interviews. Furthermore, almost all producers expressed disinterest in such marketing, stating that it is ‘opportunistic’ and ‘dishonest.’ The unwillingness to market wine as socially responsible can be traced to numerous factors. Indeed, producers feel that the ‘adding-on’ of such an image overloads their brand image, especially in terms of a premium to ultra-premium wine. Essentially, it appears that producers are seeking a clear, streamlined, sophisticated brand imaging of which social responsibility does not play a part. Producers also feel that there is an unfair rationale for adding such a tag to their wine, when labour conditions in other wine-producing countries are not being viewed with the same skepticism. The typical argument heard in the interviews was: “This type of marketing implies that our winery was operating differently, meaning worse, before...Why would I want to give that image to consumers?” Such skepticism can also be traced to the critical perspective of many farmers of farm worker-empowerment schemes, as such schemes have produced socially responsible (or ‘worker friendly’ wine). Indeed, when asked, many producers feel that these schemes are a ‘scam’ and their marketing false and misleading.

Outside of producer’s opinions, is the ‘social’ ethical marketing of wine profitable in reality? In a recent consumer survey by researchers at the University of Miami, it was found that consumers are *more prone to buy luxury good products with an ethical stance rather than basic goods*. The hypothesis behind the research was the following (Strahilevitz 1999:220):

“Recent work by Strahilevitz and Myers (1998) suggests that altruistic incentives will be more effective with products perceived as pleasure-orientated and frivolous rather than with products perceived as goal-orientated and practical. The explanation given for this effect is based on a wide body of prior research that has shown that experiencing either pleasure (Cunningham 1979; Isen and Levin, 1972; Isen, Shalcker, Clark, and Karp 1978; Levin and Isen 1975) or guilt (Baumann, Cialdini, and Kenrick, 1981; Carlsmith and Gross 1969; Cialdini, Darby and Vincent 1973; Freedman, Wallington, and Bless 1967; Ghingold 1981; Izard 1977) can significantly affect an individual’s willingness to engage in charitable behavior...[Thus,] *because hedonic products tend to evoke both pleasure and guilt, and utilitarian products do not usually evoke either of these*

emotions, it follows that charity incentives should work better with pleasure orientated products” [my italics].

It can be safely assumed that wine is a hedonic product, especially in the premium and above categories, where it falls out the beverage commodity category (e.g., sodas, wine coolers, juices, etc.). Thus, can premium and above wine be marketed successfully as socially responsible? Three factors must be considered.

1) *Lack of quality is not a substitute for ethical marketing.* Indeed, although ethical attributes or ‘prosocial behavior’ (as represented in advertising or labeling - as going beyond minimum standards) often will induce consumers to choose a certain product, such ethical behavior cannot ultimately compensate for inferior quality (Folkes and Kamins 1999). Furthermore, it was shown in a recent study that, when a product was inferior, “firm’s ethics had less impact...” than when compared to quality or superior products, where ethical behavior was more highly prized (Folkes and Kamins 1999:243).

2) *Alcohol is not a socially responsible product.* How can a non-socially responsible product be marketed as socially responsible? Indeed, all indications in Europe and America point to the declining popularity and societal receptiveness to alcohol: the destructiveness of alcohol in society is well documented in two of the biggest markets for South African wine. What, then, are the opportunities for socially responsible South African wine?

3) *South Africa carries a negative stigma with regards to human rights.* The international community's perception of South Africa may have dramatically improved within the last several years, yet the lingering stigma of apartheid and human rights abuses remains alive in international consciousness. This raises the question of how effective and *believable* ethical marketing may be, coming from a traditionally all-white industry in South Africa, which possesses a sordid history of labour practices. Put differently, how does the specific context of South Africa and its wine industry effect efforts to successfully build an ethical stance in the global marketplace?

Conclusively, the market for socially responsible products, more so than environmentally friendly ones, poses a challenge and an obstacle for South African wine producers.

Although the market for such goods is strong on the whole, how does South African wine fit into this picture? Thus, it can therefore be inferred that the economic incentives for 'social' ethical trade are mixed, and call for further research.

(b) Conservatism of farmers

Another obstacle in the development of ethical trade in the wine industry is the conservatism of farmers and the fragmented, defensive nature of the industry itself. The industry is very divided, and although it is trying to adopt a more united front, it remains deeply conservative and traditional. It can be said that the objectives of ethical trade are not part of the traditional wine farmer's production philosophy. Thus, the incorporation of ethical trade in the wine industry will require a dramatic paradigm shift on the part of producers. Furthermore, in order to adopt an industry-wide code of conduct, for example, the industry must be united and cohesive. This is not the current situation at the moment, which leads to questions about the possibility of such a code.

(c) Costs of ethical trade

As indicated in several interviews, social responsibility is expensive to implement; therefore, it is nebulous as to the extent to which farmers will be swayed by the economic incentives of ethical trade, if the financial rewards are dramatically offset in the short-term by increased costs. In addition, as represented in the interviews, the financial implications of increased government legislation deter farmers from hiring additional workers. Thus, similar investment in workers in the context of ethical trade arrangements could also result in job shedding. Furthermore, it is important to consider the following: as the world demand for wine is falling, it appears that the cooperative sector, which produces most of South African wine by volume, could go into a decline, especially if the bottom falls out of grape juice concentrate and brandy production. This implies major cost cutting and thus suggests a *lack of incentive* for producers to invest in ethical trade. If this future were to materialise, it is clear that ethical trade will fall in priority, unless, for instance, supermarkets were requiring these producers to adhere to certain standards of social responsibility. If this is the case, then increased cost pressure will require job cutting and losses for farm workers.

Furthermore, will investment in labour result in decreased costs, in the long run? The answer to this question is highly theoretical, and must be evaluated and applied for individual firms and the industry as a whole. If labour investment can offer long-term cost reductions to wine producers, this will offer an increased economic incentive for producers to invest in ethical trade. Further research is needed in this area to successfully portray the cost/benefits of engaging in ethical trade to producers.

(d) Supermarkets' momentum and the entrance of Wal-Mart

The last obstacle in building ethical trade in the South African wine industry derives from the largest distributors of South African wine: supermarkets. It has emerged that the key to encouraging ethical trade is the development of economic incentives for participation, and the heart of this economic incentive has been created by rising requirements from UK supermarkets to its suppliers. Several obstacles emerge from this fact:

- 1) While many producers export to supermarkets in the UK, there are a large number who do not. While this percentage is not known for lack of available information, it is clear that the smaller cellars, producing in lower volumes, or seeking a smaller, niche-market focus, are *outside* of the pressure to move towards ethical trade – at least, in terms of developing the social responsibility component. Furthermore, while the wine industry plans to expand its exports, currently *only 20%* of South African wine is exported. This leads to questioning the overall impact of encouraging economic incentives for producers to invest in ethical trade. However, the success of the IPW suggests that the incentive of market access is enough to push all producers (exporting and non-exporting) towards ethical trade, or environmental responsibility. Thus, do there exist the same incentives for pushing non-exporting producers to social responsibility?
- 2) The entrance of Wal-Mart in the UK could provide a dramatic turn-around of the progress made thus far in ethical trading initiatives. Wal-Mart, the largest American retailer, recently bought ASDA, a UK supermarket, and plans to expand its operation throughout the UK and continental Europe. It is feared that Wal-Mart's absence of ethical standards or a code of conduct could reduce the momentum behind the UK's

ethical trading initiatives, thus reducing the economic incentives for South African wine producers to invest in ethical trade, especially social responsibility, more so than environmental standards. Why would a producer sell through Tesco, which requires adherence to a certain 'ethical floor' and social auditing, and not through Wal-Mart, where compliance is much easier and cheaper?

7.5. Implications and Conclusions: The Future of Ethical Trade in the South African Wine Industry

As demonstrated throughout this research, ethical trade is a growing trend in the world marketplace. More consumers are demanding social and environmental accountability from business, and this demand has translated into a rising 'ethical floor' in many markets across the globe. While environmental responsibility, especially with regards to food safety, is presently occupying the forefront of consumer concern and thus market demand, social responsibility nevertheless remains an important and integral part of demands on business conduct, as represented in Chapter II and III. How does the South African wine industry fit into this picture? Meaning, will the South African wine industry move in the direction of ethical trade?

This research has shown that the wine industry as a whole has accepted standards of environmental responsibility, as illustrated through the success of the IPW. In terms of social responsibility, this type of ethical trade will most likely appeal to, in the short run, a) a small, progressive, and export-orientated group of producers who are either morally concerned with labour conditions for their farmworkers or who understand the economic relationship between human capital investment and productivity, and/or b) those producers exporting to UK supermarkets. Small, export-orientated producers, as represented in the interviews, have adopted a more 'business-like' approach to social and environmental aspects of production. These firms appear to recognize the importance of the investment in these two natural resources, not only to maintain market share, but as a valuable production philosophy or paradigm. Furthermore, larger producers exporting to UK supermarkets are coming under increased pressure to provide social accountability.

These producers will therefore move towards ethical trade owing to international pressure, as opposed to the producers that operate ethically according to a production philosophy or 'way of doing business.' Although the IPW has successfully motivated industry-wide support from most South African wine producers, a similar push towards social responsibility does not appear to currently occupy the same marketability or necessity as that of environmental responsibility. This statement implies that 'social' ethical trade will appeal to only a certain percentage of South African wine producers.

However, in the long run, it can be surmised that pressure from the market could eventually induce *all* South African wine producers to move towards 'social' ethical trade. Put differently, if social factors of production occupy the same importance in terms of gaining market access as environmental accountability, this momentum would push the wine industry to adopt an industry-wide programme, similar to the IPW, for improving, monitoring, and auditing labour conditions. In sum, as represented throughout this research, ethical trade will only succeed if its *economic incentives* are clearly presented to producers. This involves not only articulating the market benefits of ethical trade but also clearly illustrating the costs of ethical trade to producers, in terms of costs of compliance as well as long-term cost reduction. Furthermore, like the IPW, a successful 'social' ethical trade arrangement in the industry will rely upon a structured and accessible means of aiding producers in investing in this complicated factor of production. This means that information must be readily available to interested wine producers, and similar dissemination of the programme must take place, as in the case of the IPW. Therefore, perhaps the most suitable, appropriate, and effective means of building 'social' ethical trade in the wine industry will take the form of an industry-wide initiative, similar to the IPW scheme.

CHAPTER VIII

Conclusion

8.1. Summary of Research

Ethical trade is a new term applied to the building, monitoring, and communicating of socially and/or environmentally responsible practices within a business. As seen in Chapter II, business social responsibility has evolved greatly to encompass a wide variety of consumer expectations, especially concerning labour and environmental issues. Because of the relative newness of this area, there is naturally a proliferation of varying initiatives and programmes that seek to build ethical trade into business' operations, as illustrated in Chapter III. What all initiatives have in common is the fact that they must be *voluntarily* adopted, and are frequently drafted and catalysed by NGOs, governments, trade unions, and/or businesses themselves. Most commonly, businesses will adopt a private-company code of ethics, dealing with social and/or environmental responsibility. However, such initiatives are frequently nebulous and have been subject to skepticism, which has spurred the development of third party social auditing. The need for third party auditing in turn has inspired the growth of a veritable industry of environmental/social consulting firms. Furthermore, there are a myriad of 'umbrella' codes that can be adopted by companies, thus uniting many firms under the same social/environmental standards (e.g., ETI, SA8,000, etc.). There are also standardisation bodies which promulgate environmental/social standards or 'best practices', but which are implemented differently from firm to firm (e.g., the ISO). Several of these independent codes/standardising bodies are involved in the monitoring and verification of codes, but many provide accreditation to independent auditing firms to carry out verification. There are a wide variety of such initiatives, with varying objectives and goals, as well as methods of implementation, as outlined Chapter III.

Voluntary private regulation is quickly becoming the norm in Europe and the US as environmental and/or social responsibility accreditation and standardisation are becoming requisite features of a firm's business operations. Companies' fears over negative media

exposure and boycotts rise have risen as labour practices have become an increasingly scrutinised component of international business; therefore, businesses are seeking methods of communicating their social responsibility to all stakeholders. Furthermore, consumer's concerns over environmental protection and preservation have translated into a demand for environmentally friendly products/services, which offers a viable niche market for business. In the agricultural sector, food safety concerns have resulted in a strong demand for quality-control standards. As both social and environmental standards have become an inextricable part of business, many distributors and buyers require their suppliers to adhere to a certain minimum 'ethical floor.' Often, this ethical floor is set by government legislation, but more and more frequently, as in the case of EUREPGAP, an ethical floor is set by an industry or collaboration of firms, which have the power to control a market. For instance, in the agro-food chain, the undeniable influence of supermarkets has greatly altered supplier's production strategies. Indeed, as food retailers have become more consolidated, and as these supermarkets implement higher ethical criteria regarding their suppliers' production methods, it is clear that social and environmental responsibility must be represented in a certain, identifiable accreditation and/or standardisation. Finally, it is expected that this pressure from supermarkets to producers in the agro-food chain will continue to grow, and nowhere is this pressure more acute than in the large British supermarket chains, which are the largest distributors of South African wine.

Through Chapters IV and V, it became clear that the South African wine industry is in full swing-adjustment from an inward-focussed, production-based industry to an export-orientated, market-driven one. Because of the complicated past of the industry, it is clear that there are many issues and problems with regards to this rapprochement. As the world wine industry becomes more fiercely competitive, the South African industry must take steps to ensure that it stays abreast of market changes. Major production, consumer, and marketing trends in the market for wine include: an increased demand for high quality, premium red wine, a more sophisticated and discerning consumer, the need for niche-market focus, as well as the need for strong marketing and brand equity. Furthermore, environmental demands from European countries and America imply that

the wine industry must adhere to certain standards of environmental quality. Also, as supermarkets in the UK, the largest importers/retailers of South African wine, set ethical codes of conduct relating to labour practices, it is clear that producers that export to supermarkets will come under increased pressure to improve labour conditions. It can therefore be said that the main issues for the South African wine industry are the production of high quality wine, the sustainable management of natural resources, and the investment in stronger marketing strategies.

In Chapter V, it was established that ethical trade could address these key deficits in the South African wine industry, through encouraging the investment in social and environmental responsibility.

Chapter VI highlighted important perspectives on ethical trade from eleven of the industry's wine producers. From the case studies, the following general lessons for the industry as a whole and the integration of ethical trade can be extrapolated:

- New, competitive wineries (Durbanville Hills, Waterford) are generally more progressive and searching for marketing strategies that create a brand name and thus, differentiate their product. These wineries are very conscious of their image, and their environmental and labour standards tend to be high, relative to other S.A. wine producers. However, it is dubious as to the extent that ethical trade will affect these wineries.
- The economic incentives from participating with the ETI are often a confusing area for all those involved in the programme. What are the sanctions for adhering to an ethical code of conduct? Certainly this does not mean that a producer has a guaranteed 'in' with a participating supermarket, at least not in the long term. However, the example of Graham Beck showed that the ETI provides the opportunity for producers to increase collaboration or bargaining power with supermarkets, which, in light of this research, is an extremely valuable asset in an increasingly fierce marketplace.
- The marketing of wine as socially and/or environmentally responsible is often too "loaded" an image to add to a luxury good's brand name. Indeed, several interviews

demonstrated the unwillingness of producers to further complicate their image through adding ethical marketing (Jordan, Waterford, Thelema). While many producers many engage in ethical practices, they choose not to standardise and/or market their responsibility.

- Environmental marketing can be profitable in the case of wine, as proven by the example of Reyneke, a winery which has found a distinctive niche market based on environmental (and increasingly social) responsibility, without the use of labels, standardisation or accreditation (except for the IPW).
- Simonsig, amongst other wineries, illustrates the growing knowledge and awareness of producers concerning environmental standards, as well as the fact that social standards do not possess the same importance in obtaining market access.
- The supermarkets' involvement in the wine industry is likely to further the human development agenda on wine farms, or at least increase the pressure to improve labour standards. However, many farmers are reluctant to invest in housing, for example, which has fallen short of supermarket's standards, without financial backing from supermarkets (Stellenbosch Vineyards).
- Social responsibility, or the adherence to supermarket's codes of ethical conduct, may result in job losses for farm workers.
- There is no guarantee from supermarkets that, because a producer is adhering to social/environmental standards, that the producer will secure his/her place on the shelf (Stellenbosch Vineyards).
- The cost of investing in social development as a part of ethical trade is very expensive; therefore, the financial incentives for ethical trade are offset in the short term by increased costs (Thandi).
- The Paarl vintners' ethical code of conduct (dealing with labour standards) reveals an increasing preoccupation on the part of wine producers with bolstering the image of South African wine (Villiera).
- The success of the IPW scheme can provide insight and encouragement on how to replicate the same programme with regards to labour standards (Siyabonga).

- All wineries emphasised the fact that social investment (farm worker development) is a *highly* complicated subject for a number of reasons, including cultural, historical biases, the deep social problems of workers (i.e., alcoholism, lack of education, etc.).
- All producers are implementing the IPW and expressed no dissatisfaction with the programme, which provides insight into the possibility of establishing an industry-wide code of conduct for labour standards.

Chapter VII provided an analysis of the opportunities, obstacles, and implications for ethical trade in the South African wine industry, and outlined the reasons why social and environmental responsibility is necessary to the success of the wine industry. For instance:

- 1) The modern consumer in Europe and America is concerned with social and environmental factors of production. And as seen in Chapter II, consumers are increasingly willing to display environmental and/or social concern through purchasing. A firm that has been exposed as environmentally unfriendly or socially irresponsible (i.e., towards its labour force) risks boycotting and losing market share.
- 2) Media or consumer activist attention to irresponsible or destructive business practices can result in a negative image for a business; avoiding this exposure through environmental and social responsibility can be seen as accruing a type of 'integrity capital.'
- 3) Many suppliers and distributors in the agro-food chain are requiring their suppliers to meet strict standards, oftentimes going beyond government legislation, especially as food-safety concerns occupy the forefront of consumer demand.
- 4) The major British supermarkets, the largest importers world-wide of South African wine, are members of the Ethical Trading Initiative and have therefore agreed to attempt to build standards of social responsibility within their value chain, which in turn implies a greater attention to and screening of social conditions of production in many agro-food suppliers to these supermarkets.

- 5) The South African wine industry has acquired a negative reputation and image based on inhumane labour conditions. Furthermore, the productivity of the average farmworker on the South African vineyard is low, which can be traced to the poverty of the labour force.
- 6) Social and environmental responsibility could aid in improving quality production of wine, by reducing the use of harmful chemicals and pushing the industry to adopt new methods of production based around environmental quality control. Furthermore, investment in labour could theoretically result in improved worker efficiency and greater vineyard/cellar skills.
- 7) A niche market for South African wine could be developed through its participation in ethical trade, and provide interesting opportunities for new brand building and marketing strategies.

There exist many opportunities for wine producers to engage in ethical trade, whether individually or as an industry as a whole. Opportunities include the development of a private code for the individual winery, participating in an umbrella or multi-firm code (e.g., the ETI, SA8000, or ISO 14,000, etc.), or establishing an industry-wide code of conduct, such as the IPW. Although opportunities abound, there are important constraints that perhaps provide a clearer image of how likely the industry is to adopt ethical trade, especially with regards to 'social' ethical trade. The main obstacles highlighted in Chapter VII dealt with the uncertainty of the market for socially responsible products, and moreover, uncertainty concerning the market for socially responsible wine. While there may be long-run cost benefits for introducing 'social' ethical trade onto a farm, this research has made clear that the economic incentives, therefore the market, for this type of investment must be made clear in order for the wine industry to move in the direction of social responsibility. Furthermore, it was illustrated that 1) lack of quality is not a substitute for ethical marketing; meaning that ethical behavior cannot ultimately compensate for inferior quality; 2) Alcohol is not a socially responsible product; which provides insight into the difficulty of marketing wine as 'ethical;' and 3) South Africa carries a negative reputation with regards to human rights; in other words, how believable will 'social' ethical trade be, coming from a traditionally

exploitative agricultural industry? In addition, important points that emerged from the research are that the conservatism of farmers may render the industry reluctant to adopt ethical trade strategies, as well as the fact that the entrance of Wal-Mart and the to the UK supermarket arena may be a deterrent to fortifying ethical trade initiatives. Finally, it was suggested that the impact of the British supermarkets' 'social' ethical standards may be limited only to a portion of the wine industry (those wineries that export to these supermarkets) and thus not have a far-reaching effect on the industry as a whole.

This research has proven that ethical trade could provide benefits to the South African wine industry, while illustrating the difficulties and constraints surrounding such a marriage. It is the conclusion of this research that ethical trade will, in terms of environmental responsibility, will continue to be a widely adopted and accepted production strategy. However, social responsibility, or 'social' ethical trade, which focusses on monitoring, auditing, and communicating labour standards, will remain a) a voluntary endeavor by a small, progressive, and export-orientated group of producers and/or b) a required facet of business operation by those producers exporting to supermarkets in the UK which require screening of labour conditions on South African farms. Ultimately, this research concludes that the South African wine industry will move in the direction of ethical trade regarding social responsibility when the economic incentives thereof are clearly articulated to the wine industry, or put differently, when social responsibility begins to occupy the same international importance as environmental quality control (as in the case of the IPW). At this point, then the real results and implications of 'social' ethical trade can be measured.

8.2. Agenda for Future Research

This research has attempted to illustrate the main issues around the integration of ethical trade in the South African wine industry. One of the strengths of this project lies in that it has more clearly articulated the need for further research in ethical trade. It can be said that future research must focus on:

- 1) More clearly developing the economic incentives of 'social' ethical trade (e.g., centering on market access, as well as on the costs of compliance, etc.), as well as communicating and disseminating these incentives to wine producers.
- 2) Drafting appropriate codes for the specific context of the South African wine industry. This next step should thus focus on the *effectiveness* of codes and other ethical trade initiatives in terms of their actual impact on improving environmental quality and the lives of farm workers, as well as the codes' concomitant impacts on productivity, cost-saving benefits, and international market access (competitiveness).

This research has constituted a first step towards evaluating the incorporation of socially and/or environmentally responsible standards within the South African wine industry. However, further research must be carried out in order to gauge the real effectiveness of these initiatives in providing the true social and environmental progress ethical trade seeks to achieve.

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APPENDIX I: Examples of Labeling Programmes: Structure and Operation
(Source: Diller 1999:105)

Programme	Sources of Financing*	Primary Implementation Methods**	Object of Label or Certification ***	Manner of Publicity****
Care and Fair	PF(I)	SM	C	Promo
Kaleen	PF(E), G	TP(G), TP(PA)	P or S	Attached
RUGMARK	FF, PF(E), PF(I), G, NGO, IGO	TP(PA)	P or S	Attached
STEP	FF, PF(I), G, NGO	TP(PA)	C	Attached
Double Income Project	PF(E), PF(I), initial small G grant		P or S	Promo
Pro-Child	FF, E, G, IGO	SM, TP(PA)	P or S	Attached
Abrinq	E, IGO, NGO	SM	C	Promo
Baden		SM	P or S	Attached, promo
Reebok		TP(PA)	P or S	Attached
Fairtrade Labelling Organisations Intl.	PF(I), G, IGO, NGO	IW, TP(PA)	P or S	Attached
Flower Label Programme	FF, PF(E)	TP(PA)	P or S, C	Attached, promo
Forest Stewardship Council (FSC)	FF, PF(E), NGO, G, IGO	IW, TP(PA)	P or S, C, O	Attached, promo

LEGEND:

***Sources of Financing**

FF- flat fees for license or membership (buyer or manufacturer)

PF(E)- proportional fees for use of label on export

PF(I)- proportional fees for use of label upon import or sale

GA- grant assistance from government, Intergovernmental organisations, NGOs, Workers' organisations, Enterprises

****Primary Implementation Methods**

SM- self monitoring (enterprise, contractual partners, or individual entrepreneurs)

IW- input by Workers' organisations

TP(G)- third-party monitoring by government

TP(PA)-third party monitoring by NGOs or professional auditors

*****Object of Label or Certification**

P or S- Product or service

C- Company

O- Other

******Manner of Publicity**

Attached- Typically attached to individual item

Promo- Display or promotional activity by company

APPENDIX II: Paarl Vintners Proposed Commitment (Source: *Paarl Vintners Proposed Commitment 2000*)

Paarl Vintners was established in 1997 essentially to market the quality wines of the region both nationally and internationally. To achieve this, the organization recognized the need to take a broader view. All growers in the region had to somehow become involved, hence the introduction of technical committees, covering viticultural and vinicultural issues. This approach attracted growers including those not necessarily interested in direct marketing, resulting in general quality improvement and greater marketability of the region.

To ensure further quality improvement the aspect of skills development was also identified and numerous workshops have been held to assist in realising this goal. Finally, to ensure this general development of the region, social upliftment was regarded as critical. To this end, the Members of Paarl Vintners have committed themselves to the following code of conduct.

DECLARATION

We, the members of the Paarl Vintners Association, comprising of farmers and winemakers, commit ourselves to working toward the development, education, and social upliftment of our employees and their families.

VISION

To provide a safe and secure working environment, where employees and their families will have freedom of association, choice and opportunities to actualize their full potential.

CODE OF CONDUCT

I, the undersigned.....Owner/Representative of
....., Member of Paarl Vintners commit myself to adhere to all
applicable labour legislation:

- Extension of Security of Tenure Act 62 of 1997
- Labour Relations Act No 66 of 1995
- Basic Conditions of Employment Act No 75 of 1997
- Occupational Health and Safety Act No 85 of 1993
- Skills Development Act No 97 of 1999
- Employment Equity Act No 55 of 1998
- Compensation for Occupational Injuries and Disease Amendment Act No 61 of 1997

I further commit myself to pay wages that will meet basic needs and provide discretionary income.

To provide safe and hygienic accommodation (where accommodation is provided).

To implement remedial and corrective action where non-conformance is identified.

OBJECTIVE

To actively promote social change, development of skills and the general well-being of all farm employees and their dependents.

APPENDIX III: Excerpts of Guidelines from the IPW (*from South African Guidelines for the Integrated Production of Wine 2000/01:1-5*)

C. Guidelines for Vineyards

The guidelines will be revised every second year to incorporate the latest research results. The IP-coding of chemical sprays will be updated continuously. Since the IPW Scheme functions within existing legislation, the guidelines were compiled with the ambit of relevant legislation and the applicable acts are listed at the end of each of the guidelines. Legislation applicable to agriculture and cellar practices are also listed in greater detail in the course notes provided to all IPW certificate holders.

1. The Producer

To apply IPW successfully and effectively, a thorough knowledge of the principles involved is essential.

- The attendance of an IPW course, including an integrated pest management scheme (IPM) course, is therefore compulsory for at least one representative of a farm or cellar wishing to participate in the IPW scheme, namely someone directly in charge of production, pest control, or winemaking.
- All course attendants will receive a certificate as proof that they completed an accredited IPW course.

2. Conservation and Improvement of the Farm and Vineyard Environment

One of the most important principles of the IPW is that production should proceed in harmony with nature. This requires the natural environment and the veld with its plant and animal life to be improved and conserved.

- Erosion, indiscriminate removal of bush and veld fires, practices which result in the destruction of soil, plant, and animal life, and abuse of non-replaceable resources should be avoided at all costs.
- Farm roads, particularly gravel roads, must be designed and laid out so as not to cause or aid erosion. Regular maintenance and environmentally friendly methods are necessary to curb erosion and excessive dust.
- ...Where proposed expansion of vines will replace natural veld and especially fynbos, a thorough environmental study must be conducted by experts.
- Where possible, strips of indigenous vegetation should be preserved to improve the occurrence of natural enemies of pests. Indigenous vegetation, particularly trees and shrubs, can also function as wind-breaks. Etc.

3. Soil and Terrain

Soil and terrain have a definite effect on the performance of the various vine cultivars and also on wine quality, be it directly or due to the meso-climate created by soil/terrain interaction. IPW requires that cultivars be planted where they will adapt best.

- The suitability of the terrain for the specific grape cultivar regarding aspects such as vigour, delayed budding, disease pressure, ripening and quality must be determined.

- The suitability of the soil for a specific cultivar/rootstock combination should be determined by means of comprehensive soil profile studies, as well as macro- and meso-climate studies. Etc.

4. Cultivars

Cultivar has a decisive effect on disease susceptibility, use of chemicals, quality, etc., and only cultivars which can ensure economically viable crops of quality grapes with minimum intervention by man must be used. Certified planting material must be used.

5. Rootstocks

Rootstocks differ in their resistance to subterranean pests and suitability for soil-physical and –chemical conditions, and are therefore critical to the successful cultivation of quality grapes.

- Rootstocks should be selected in consultation with experts, taking into account soil conditions, vigour, disease and pest resistance, scion cultivar, previous rootstock on the soil, etc.
- Certified planting material should be used.

6. Vineyard Layout

The layout of the vineyard can contribute significantly to combat erosion in vineyards on gradients, as well as the micro-climate in the vineyard, which in turn influences disease susceptibility, ripening, and grape quality.

- Vineyards must be laid out in such a way that row direction, plant width, training system and vine development ensure optimum air movement and sunlight exposure and do not contribute to soil erosion.
- The following factors should therefore be taken into account during the layout of a vineyard: row direction; gradient; prevailing wind directions; rootstock and scion characteristics; economic considerations. Etc.

D. Harvesting, Wine Making, Bottling and Packaging

The inherent quality of grapes determined by the genetic characteristics of the cultivars and the application of the preceding IPW guidelines can be negated by wrong harvesting, wine making, and bottling procedures. Successful wine making and handling requires large capital inputs and high quality manpower. Incorrect application of equipment and chemicals, wasteful use of water and electricity and the dumping of waste products in nature have a negative effect on the environment and the image of wine. Etc.

3. Harvesting and Transportation of Grapes

During hand and mechanical harvesting maximum care must be taken not to damage grapes and compromise quality.

- Mechanical Harvesting
 - To preserve quality, grapes should be harvested at the lowest possible temperatures and standing time should be reduced to a minimum
 - The machine should be set so that the damage to grapes is limited and the loss of juice and inclusion material other than grapes is limited to a minimum. Etc.

5. SO₂ Levels

SO₂ applications before and after fermentation must be restricted to a minimum.

6. Substances Added to Wine

Use natural precipitants, filter materials and fining agents which are environmentally friendly. Etc.

APPENDIX IV: The Ethical Trading Initiative's Base Code (*Source: ETI 1998:3-6*)

1. Employment is Freely Chosen

- 1.1. There is no forced, bonded, or involuntary prison labour.
- 1.2. Workers are not required to lodge "deposits" or their identity papers with their employer and are free to leave their employer after reasonable notice.

2. Freedom of Association and the Right to Collective Bargaining are Respected

- 2.1. Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively.
- 2.2. The employer adopts an open attitude towards the activities of trade unions and their organizational activities.
- 2.3. Workers representatives are not discriminated against and have access to carry out their representative functions in the workplace.
- 2.4. Where the right to freedom of association and collective bargaining is restricted under law, the employer facilitates and does not hinder, the development of parallel means for independent and free association and bargaining.

3. Working Conditions are Safe and Hygienic

- 3.1. A safe and hygienic working environment shall be provided, bearing in mind the prevailing knowledge of the industry and any specific hazards. Adequate steps shall be taken to prevent accidents and injury to health arising out of, associated with, or occurring in the course of work, by minimizing, so far as is reasonably practicable, the causes of hazards inherent in the working environment.
- 3.2. Workers shall receive regular and recorded health and safety training, and such training shall be repeated for new or reassigned workers.
- 3.3. Access to clean toilet facilities and to potable water, and if appropriate, sanitary facilities for food storage shall be provided.
- 3.4. Accommodation, where provided, shall be clean, safe, and meet the basic needs of the workers.
- 3.5. The company observing the code shall assign responsibility for health and safety to a senior management representative.

4. Child Labour Shall Not be Used

- 4.1. There shall be no recruitment of child labour.
- 4.2. Companies shall develop or participate in and contribute to policies and programmes which provide for the transition of any child found to be performing child labour to enable him or her to attend and remain in quality education until no longer a child...
- 4.3. Children and young persons under 18 shall not be employed at night or in hazardous conditions.
- 4.4. These policies and procedures shall conform to the provisions of the relevant ILO standards.

5. Living Wages are Paid

- 5.1. Wages and Benefits paid for a standard working week meet, at minimum, national legal standards or industry benchmark standards, whichever is higher, in any event wages should always be enough to meet basic needs and to provide some discretionary income.
- 5.2. All workers shall be provided with written and understandable information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.
- 5.3. Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.

6. Working Hours are not Excessive

- 6.1. Working hours comply with national laws and benchmark industry standards, whichever affords greater protection.
- 6.2. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every 7 day period on average. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

7. No Discrimination is Practised

- 7.1. There is no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.

8. Regular Employment is Provided

- 8.1. To every extent possible work performed must be on the basis of recognized employment relationship established through national law and practice.
- 8.2. Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting, sub-contracting, or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed term contracts of employment.

9. No Harsh or Inhumane Treatment is Allowed

- 9.1. Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.

The provisions of this code constitute minimum not maximum standards, and this code should not be used to prevent companies from exceeding these standards. Companies applying this code are expected to comply with national and other applicable law and, where the provisions of law and this Base Code address the same subject, to apply that provision which affords the greater protection.